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Companies and the Board of Trade

THE Companies Act, 1948, and its predecessors, have conferred on the public a most valuable facility, that of setting up a corporation with a separate personality and conferring the benefits of limited liability, not to mention considerable tax advantages. There have been some 628,000 such incorporations and the register of companies at present contains some 370,000 names. Something like 40,000 companies will be incorporated in this year alone, compared with 16,000 as recently as 1948. Abuses have, of course, been many and the Act bristles with sections imposing penalties on companies and their officials for all kinds of statutory offences, grave and otherwise. The imposition of these sanctions rests with the Board of Trade and reading the Act one has the impression of linx-eyed Board of Trade officials ever waiting to pounce. In practice, however, a somewhat different picture obtains. The department has perhaps not grown with the growth of companies. The Permanent Secretary, Sir RICHARD POWELL, told the Jenkins Committee that about 90,000 companies default each year in filing their annual returns. Technically this involves a fine of £5 a day during the default, for both the company and its directors, but in practice only an infinitely small number of companies are prosecuted by the Board of Trade. If the return is not filed, much of the efficacy of the policing of companies is lost, and nothing is more likely to bring the law into contempt generally than this wholesale flouting of it. The Board of Trade pointed out that a great many of the defaulting companies were dormant ones, possibly with no assets to speak of, and that it was often not possible to identify the individual officers in default. They criticized the carrying on of business consisting of the sale of companies 'ready-made'. While these companies were awaiting a purchaser they were continually in default. Although, of course, the majority of people who acquire new companies in this way are perfectly respectable, it will be recalled that the activities which led to successful prosecutions in the State Building Society case included the acquisition of an enormous number of new companies off the peg in order to conceal the amount of money which the Society was advancing in effect to the same people.

The Board of Trade would like to see things made more difficult for those who wish to incorporate companies, thus cutting down the number of companies and, incidentally, the work of the Department. Certainly it seems all too easy

at present to incorporate a company, even if one does not seek the help of those enterprising people who form them in advance, for sale. Frequently when a business man thinks of a name he likes, he forms a company of that name, in order to prevent anyone else from using it. Similarly, when some companies are wound up, on an amalgamation, new companies are immediately formed in the same name, not in order to carry on any kind of business, but to keep the name. Indeed, the principal cause of delay in forming a new company in these days is finding a name which is not already in use. When the Board of Trade representatives gave oral evidence to the Committee the question of charging every company an annual fee was canvassed. This would at one and the same time bring in revenue, reduce the burden of work on the Department, and help to keep up the supply of names.

It will be recalled that the Cohen Committee was pressed to put some restriction on nominee holdings of shares but rejected the suggestion on the grounds of difficulty. What it did do, largely as a palliative, was to recommend that the Board of Trade should have power to investigate ownership of shares. The power was given to the Department by Sections 172 and 173 of the Companies Act, 1948. In their written evidence to the Jenkins Committee the Board said that they had interpreted the reference in those sections to 'good reasons' as requiring that before the Board exercise their powers the matter must have some public importance. They had not in fact found it necessary to 'make great use of their powers'. Professor GOWER, a member of the Committee, pointed out that where an application is made to the Board for an investigation under Section 172 (3) then the Board must appoint an inspector unless they are satisfied that the application is vexatious. There was at least one case where they had nevertheless declined to make the appointment unless the applicants produced evidence in support of the application; surely that was completely contrary to the section. Mr DEAN, the Board's principal assistant solicitor, said that the application was refused because the applicants had not given good reason for it; the reasons given were not considered by the Board to be proper ones, and therefore in the Board's view the application was a 'vexatious' one within the meaning of the

section. This is certainly a curious interpretation of 'vexatious' and gives point to the general impression given by the Board's evidence that the Board are by no means anxious to use their powers if it involved some trouble. This, of course, is very comforting to anyone who wishes to abuse the facilities given by the Companies Act; the various penalties lose a good deal of their menace when the only people who can enforce them are in general reluctant to do so.

These passages between Professor GOWER and the Board's witnesses occurred in the morning. The chairman took up the matter again in the afternoon and asked the witnesses how they arrived at the construction of 'good reason' as meaning of public importance. The answer was that this was on legal advice. Professor GOWER was also critical of the Board's interpretation of the provisions for the appointment of inspectors under Sections 164 and 165. In their written evidence the Board said that an applicant for an inspection was in practice required to submit a statement of facts verified by statutory declaration and setting out fully the reasons for requiring an investigation. With the applicant's consent this statement was sent to the directors for their observations, and this, of course, took time, which gave rise to criticisms. Nevertheless, it seemed important to the Board that they heard both sides before deciding on the serious step of appointing an inspector. It seems that unpaid creditors as applicants receive no sympathy; they are told to petition the Court for a winding-up. Again, in cases of oppression of a minority there was the remedy of a petition to the Court under Section 210; moreover the facts were usually known, so there was nothing for an inspector to find out. Professor GOWER said this was a vicious circle. The Board's attitude seemed to be that if the applicant made out a case, the Board refused the appointment of an inspector 'because you already know the facts'. If the case was not made out, the Board said 'You have made out no prima facie case and therefore we cannot appoint an inspector.' Mr K. W. MACKINNON, Q.C., made the point to the Board's witnesses that Section 165 was designed as a sort of prelude to Section 210. Only eighteen appointments of inspectors have been made under Section 164, and thirty-six under Section 165, in the whole of the last twelve years.

Illegal Purchases of Shares

by SPENCER G. MAURICE

THE report, published on June 19th, of Mr Neville Faulks, Q.C., on his investigation into the affairs of H. Jasper & Co Ltd,¹ focuses attention on the shortcomings of Section 54 of the Companies Act, 1948. That section provides that it shall not be lawful for a company to give, whether directly or indirectly, and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person of or for any shares in the company, or, where it is a subsidiary company, in its holding company. There is, however, a proviso that nothing in the section is to be taken to prohibit the lending of money by the company in the ordinary course of its business, where the lending of money is part of its ordinary business; the provision by the company of money for the purchase of, or subscription for, fully-paid shares in the company or its holding company by trustees of a scheme for the benefit of employees; or the making of loans to employees (but not directors) to enable them to purchase or subscribe for fully-paid shares in the company or its holding company to be held by them beneficially.

Inadequate Penalty

It is sufficiently obvious why the transactions referred to in the proviso are excepted from the general prohibition contained in the section for no comment to be necessary, and they will not be referred to further here. What is difficult to understand is the precise significance of the prohibition itself. One fact is, however, certain, as Mr Faulks's report makes clear, and that is that, whatever may be the result of a breach of the section, the penalty for breach – a fine not exceeding £100 leviable upon the company and every officer thereof who is in default – will often not be an adequate deterrent. From the evidence before him he found it clearly apparent that the section was generally honoured more in the breach than in the observance, and he blamed the inadequacy of the maximum penalty as the reason. He found a general impression existing that the section involved just a technical offence.

History of Section 54

According to the Board of Trade's memorandum to the Jenkins Committee, Section 54 was designed 'to prevent evasion of the prohibition against reduction of capital by a return of capital to members'. In *Palmer's Company Law*, twentieth edition, page 443, the reason for the section is given as follows:

"The prohibition to finance the acquisition of its own shares, is intended to prevent speculators from acquiring the shares of a company on security of the company's own assets; it was found, particularly after the First World War, that these speculators, after having obtained control of the company by acquisition of its shares, would distribute its accumulated profits without regard to the business prospects of the company."

The recent development of take-over bids has given an added importance to the prohibition, because the use of a company's funds to purchase its shares can play a significant part in the carrying out of a take-over.

The prohibition forms part of the general pattern of the Companies Act, whereby the capital of the company is to be preserved intact for the benefit of creditors so long as the company remains a going concern and has not gone into liquidation. It is a corollary of limited liability that persons giving credit to a company, and being able, by reason of the limited liability of its members, to look only to the company's assets, should be entitled to have the security afforded by its paid-up capital being preserved intact, save only in so far as it may necessarily be depleted by expenditure in the prosecution of the company's objects; and equally, where shares are partly paid up only, creditors must be entitled to deal with the company on the footing that the holders of such shares will remain liable for the unpaid portions.

The position of creditors would be seriously altered if it lay within the company's power to return capital, or release liability on partly paid-up shares, at will, and the general rule of the Act is that the sanction of the Court is required to any reduction in the capital of the company where the rights of creditors are affected. This rule reflects the decision of the House of Lords

¹ *The Accountant*, June 24th, 1961, page 786.

in *Trevor v. Whitworth* ((1887), 12 A.C. 409), since which it has been clear that a company cannot purchase its own shares except by way of reduction of capital with the sanction of the Court.

The prohibition contained in Section 54, albeit less effective than it should be because it is coupled with an inadequate sanction, is wider than its predecessor in Section 45 of the Companies Act, 1929. That section did not apply to loans to persons to enable them to subscribe for shares, the distinction between subscribing for shares and purchasing shares being pointed out by Lord Greene, M.R., in the Court of Appeal in *Re V.G.M. Holdings Ltd* ([1942] 1 All E.R. 224): a person who takes shares from a company subscribes for them; he purchases them only from an existing shareholder.

In that case the Court held that no breach of Section 45 of the Act of 1929 had been committed by a company providing financial assistance in connection with paying up shares allotted by the company to the person assisted. Section 54 of the Act of 1948, however, expressly includes subscription within the prohibition.

Bankers' Views

At first sight it seems, indeed, as though the wording of Section 54 is sufficiently wide to catch any transaction of the kind against which the section is aimed. Doubt as to whether it is really so far-reaching as that arises from the answers given by the clearing bankers to a question on the section put to them by the Jenkins Committee. The question was whether the bankers would be party to an arrangement whereby a bank lent money to a company to be used to buy the shares of a second company, the loan being repaid out of funds owned by the second company. It seems that the bankers took the view that it was by no means clear that such a transaction was caught by Section 54, and saw no reason why it should be caught, because the transaction was intrinsically a perfectly harmless one.

It is, of course, perfectly true that a request by one company to its banker to make a payment to another company is on the face of it in no way improper and not such as to put the bank on inquiry, and in any event it does not seem that, short of knowledge of fraud, any liability for the consequences of the payment could attach to the bank. On the other hand it seems to be arguable that, if the money paid was to be used for the purchase of shares in the company authorizing the payment, that company would

indirectly have given financial assistance for the purpose of a purchase of its shares by the other company, within Section 54.

Validity of the Transaction

Perhaps the most serious defect of Section 54 is that a transaction prohibited by it, albeit illegal, is not necessarily void. This appears from *Spink (Bournemouth) Ltd v. Spink* ([1936] 1 All E.R. 597) (a case on Section 45 of the Act of 1929; but it may be taken to be equally relevant to Section 54 of the present Act). In that case the defendant, who was a director and the manager of the plaintiff company, entered into a written agreement with the company whereby he was to resign both offices in consideration of a cash payment and was to transfer his shareholding in the company to another director for £250, which sum was paid to him by a cheque drawn on the company's account. It was held that if the payment contravened Section 45 (and Luxmoore, J., was not satisfied that it did), nevertheless the agreement between the vendor and purchaser of the shares was not thereby rendered invalid.

In *Victor Battery Co Ltd v. Curry's Ltd* ([1946] 1 All E.R. 519), the assistance given was by way of security, a debenture being issued by a company to assist a purchaser of the company's shares. Although there was a clear breach of Section 45 of the Act of 1929, Roxburgh, J., held that that section did not have the effect of rendering the security void. Why an act which is 'unlawful' by the terms of a statute should not be void, is difficult to understand, particularly when, as in the instant case, the purpose of the prohibition and the object of the penalty are presumably the protection of the public (in this case, creditors dealing with the company): for in such a case the general rule is that a contract made contrary to the statutory provisions is void.

Section 54 Requires Amendment

In *Farrar on Company Law*, fourth edition, page 130, it is suggested that if an arrangement contrary to Section 54 of the Act of 1948 amounts to a purchase by a company of its own shares, and therefore contravenes the rule in *Trevor v. Whitworth*, the transaction would be set aside as *ultra vires*, and it seems likely that this view is correct, since the rule seems to have wide application. Furthermore, it may be open to the Court to order repayment of money paid in breach of the section. In *Re V.G.M. Holdings Ltd*, the V. Co paid £15,980 to the C. Co, which then paid

cheques to the directors of the V. Co (who were also the directors of the C. Co) to enable them to pay calls on their shares in the V. Co. Bennett, J., on the basis that Section 45 of the Act of 1929 applied, ordered the director responsible for the transaction to repay the whole amount to the V. Co, and the Court of Appeal, although it held that the transaction was not within the section, did not suggest that, if it had been, the learned judge's order to repay the money which the V. Co had paid would have been wrong.

Whatever the true position as to validity may be, one thing is plain, and that is that Section 54

of the Act of 1948 should be so amended as to be certain, and should be backed by such penalty provisions as to be effective. *The Times*, commenting on Mr Faulks's report, suggested that the section be either clarified and strengthened or abolished. It is submitted that a good case for abolition would be hard to find. As has been pointed out above, the section plays its part – or should do so – in protecting those who deal with companies. What is desirable is that they should be properly protected, and it is to be hoped that Section 54 will be amended with this end in mind.

How Many Alpenstocks?

AN INTRODUCTION TO LINEAR PROGRAMMING

by A. BATTERSBY, B.Sc., F.R.I.C., F.S.S.

JOHN SMITH runs a one-man woodworking business; he works an eight-hour day producing alpenstocks, bookshelves and chairs which sell at £3, £2 and £2 each respectively. He has the choice of working any one of three processes:

Process P costs £5 an hour to run, in which time it produces one alpenstock and two bookshelves.

Process Q costs £6 an hour, producing two alpenstocks and three chairs.

Process R costs £7 an hour, producing one alpenstock, one bookshelf and two chairs.

The local retailers have told Smith that they can sell anything up to nine alpenstocks, eleven bookshelves and nine chairs a day. How should he plan his work and how much profit will he make?

An Algebraic Problem

It is not difficult to set this up as an algebraic problem:

If p , q and r are the numbers of hours worked on the three processes, then

Number of alpenstocks made will be:

$$(1) p + 2q + r = 9$$

Number of bookshelves made will be:

$$(2) 2p + r = 11$$

Number of chairs made will be:

$$(3) 3q + 2r = 9$$

and solving these simultaneous equations will

give us the answer $p=4$ hours, $q=1$ hour and $r=3$ hours. The cost and revenue calculations show that Smith's profit will be £20 a day:

				£
Process P, 4 hours at £5	..	..	..	20
Process Q, 1 hour at £6	..	..	..	6
Process R, 3 hours at £7	..	..	..	21
Total cost	..	..	..	<u>£47</u>
				£
Sale of alpenstocks, 9 at £3	..	..	..	27
Sale of bookshelves, 11 at £2	..	..	..	22
Sale of chairs, 9 at £2	..	..	..	18
Total revenue	..	..	..	<u>£67</u>

Twenty pounds profit for a good honest day's work; never mind that uneasy feeling that p , q and r might have added up to more than eight hours, because luckily they did not, so we are quite happy with our answer.

But what's this? John Smith tells us that he has cut down his working day to six hours and increased his daily profit to £24. Work study, perhaps? New machinery? Not at all – he simply works three hours each on processes P and Q, producing the full quota of alpenstocks and chairs but only six bookshelves.

				£
Process P, 3 hours at £5	..	..	..	15
Process Q, 3 hours at £6	..	..	..	18
Total cost	..	..	..	<u>£33</u>

AUTHOR'S ACKNOWLEDGEMENT: The ingenious numerical example on which this article is based was devised by Mr P. B. Coaker, to whom I am indebted for permission to use it here.

				£
Sale of alpenstocks, 9 at £3	..	..	27	
Sale of bookshelves, 6 at £2	..	..	12	
Sale of chairs, 9 at £2	..	..	18	
Total revenue	..	..	57	£57

Of course, Smith is producing fewer bookshelves than the market will accept, but why *should* he make the other five?

Finding a More Profitable Schedule

How was this more profitable schedule found, and could Smith perhaps do even better? In order to answer these questions, we need to look very carefully at the exact nature of his problem. Call the items p , q and r as before; knowing that Smith will not work more than eight hours a day, we can write this down as a *restriction*:

$$(4) p+q+r \leq 8$$

The sign ' \leq ' means 'is less than or equal to'. It is worth mentioning in passing that, since we cannot work a process for a negative time, there are three more restrictions:

$$p \geq 0; q \geq 0; r \geq 0$$

We can also write down restrictions which correspond to equations (1), (2) and (3), but are more flexible and realistic:

$$(5) p+2q+r \leq 9$$

$$(6) 2p+r \leq 11$$

$$(7) 3q+2r \leq 9$$

The four inequalities (4) to (7) completely describe the restrictions within which Smith must work.

Now we ask ourselves, 'What exactly does Smith want to do?' – certainly not to work eight hours a day if he can make more money in less time. He wants, in fact, to make as much profit as possible, so let us work this out from his costs and revenue. Every hour he works on process P costs £5: it brings in £3 for the alpenstock and £4 for the bookshelves, a profit of £2 an hour. In the same way, we find that processes Q and R earn respectively £6 and £2 an hour. The total profit (call it Z) is:

$$(8) 2p+6q+2r=Z$$

This equation is usually called the control function.

Solution through Linear Programming

The problem has now been completely stated; let us for convenience repeat the restrictions and control function, grouping them all together.

Given:

$$(4) p+q+r \leq 8$$

$$(5) p+2q+r \leq 9$$

$$(6) 2p+r \leq 11$$

$$(7) 3q+2r \leq 9$$

Maximize:

$$(8) 2p+6q+2r=Z$$

How do we solve this type of problem? First we turn the inequalities – which are awkward to deal with – into equations by introducing some extra variables. In (4), for instance, we can add a term s , equal to the number of hours not worked at all. In (5), we add t , the number of alpenstocks not made, and so on. We then have:

$$(9) p+q+r+s = 8$$

$$(10) p+2q+r+t = 9$$

$$(11) 2p+r+u = 11$$

$$(12) 3q+2r+v = 9$$

$$(13) \text{Maximize } 2p+6q+2r = Z$$

The four simultaneous equations (9) to (12) contain seven unknowns. In consequence, they have an infinite number of possible solutions, from which we are to select the one which maximizes the control function Z . This is a typical linear programming problem.

I suggest that the accountant can well afford to ignore the actual mechanics of arriving at the solution, at least in the early stages of his acquaintanceship with linear programming.

The method is essentially no more than a systematic rearrangement of equations (9) to (13). Problems in real life will usually be much more complex than this simple example, and to expect the accountant to solve them would be unreasonable – as unreasonable, indeed, as asking him to solve a large set of ordinary simultaneous equations on a desk calculator. Fortunately, a problem once properly formulated can be solved by electronic computation; all but the very simplest computers have standard routines for this purpose. You do not need to own a machine – one of the manufacturers' computer service centres will do the job for what often turns out to be a surprisingly low fee.

Additional Information

The solution which you obtain contains not only the schedule which yields maximum profit but also a lot of additional information which can be usefully applied. To see what this is, let us return to John Smith and his alpenstocks. Here is the solution:

$$(14) s = 2 - \frac{2}{3}r + t - \frac{1}{3}v$$

$$(15) p = 3 + \frac{1}{3}r - t + \frac{2}{3}v$$

$$(16) u = 5 - \frac{5}{3}r + 2t - \frac{4}{3}v$$

$$(17) q = 3 - \frac{2}{3}r - \frac{1}{3}v$$

$$(18) Z = 24 - \frac{4}{3}r - 2t - \frac{2}{3}v$$

We interpret this by putting all the variables on the right-hand side equal to zero. This gives us:

$$\begin{aligned}
 p &= \text{Number of hours worked on process P} &= 3 \\
 q &= \text{Number of hours worked on process Q} &= 3 \\
 r &= \text{Number of hours worked on process R} &= 0 \\
 s &= \text{Number of hours not worked at all} &= 2 \\
 t &= \text{Number of alpenstocks not made} &= 0 \\
 &\quad \text{Number made} &= 9 - 0 = 9 \\
 u &= \text{Number of bookshelves not made} &= 5 \\
 &\quad \text{Number made} &= 11 - 5 = 6 \\
 v &= \text{Number of chairs not made} &= 0 \\
 &\quad \text{Number made} &= 9 - 0 = 9 \\
 Z &= \text{Total profit in } \pounds &= 24
 \end{aligned}$$

Equation (18) also tells us that any hours spent on process R would reduce the profit, for increasing r would diminish Z . If we work one hour on process R, the total profit will be reduced by $\pounds \frac{1}{3}$.

The profit also falls if we make less alpenstocks (i.e. increase t) or less chairs (i.e. increase v). In fact, any departure from the solution we have chosen will *decrease* the profit, so we know with certainty that our production schedule is the best one possible under the existing restrictions.

John Smith has just received a letter from the local sports outfitter; here is an extract:

'... and in view of the fact that the One-Armed Skiers' Club has moved to another district, we regret our inability to accept for sale more than eight alpenstocks per day, instead of nine as hitherto....'

Does this mean that we must recalculate the whole solution from the beginning? It does not: we can get a revised production schedule directly from our existing solution. Making one less alpenstock has the effect of increasing t by one, so we put this into equations (14) to (18) instead of zero.

$$\begin{aligned}
 s &= 2 + 1 = 3 \\
 p &= 3 - 1 = 2 \\
 u &= 5 + 2 = 7 \\
 q &= 3 \\
 Z &= 24 - 2 = 22
 \end{aligned}$$

Concomitant of Marginal Costing

The net result is that Smith must work one hour less on process P, cutting out not only one alpenstock but also two bookshelves, and making $\pounds 2$ less profit. It begins to look as though bookshelves are an unprofitable product, and it is at this point that we see how linear programming can make its contribution to the controversial subjects of marginal costing and pricing.

Since making one less alpenstock reduces the profit by $\pounds 2$, the marginal profit on that alpen-

stock must have been $\pounds 2$. Its selling price is $\pounds 3$, so the marginal cost of production is $\pounds 1$. This implies that of the $\pounds 5$ an hour which is spent on process P, $\pounds 1$ should be allocated to the alpenstock and $\pounds 2$ each to the two bookshelves. The marginal profit on bookshelves selling at $\pounds 2$ is therefore zero.

A similar argument can be applied to chairs. Making three more chairs is equivalent to permitting v to take a value of -3 . Then the solution equations give us:

$$\begin{aligned}
 s &= 2 + \frac{1}{3} \times 3 = 3 \\
 p &= 3 - \frac{2}{3} \times 3 = 1 \\
 u &= 5 + \frac{1}{3} \times 3 = 6 \\
 q &= 3 + \frac{1}{3} \times 3 = 4 \\
 Z &= 24 + \frac{2}{3} \times 3 = 26
 \end{aligned}$$

So John Smith should now work only five hours a day and yet make $\pounds 2$ extra profit from his three chairs. He deduces from this that advertisements costing less than $\pounds 2$ a day would be justified if they increased the market demand for chairs to twelve - or perhaps he should reduce the price. He would gain not only in money but in leisure.

Extensive Field of Application

Still more deductions can be made from the solution, such as the ranges over which the marginal costs are valid and the effects of changes in prices, processing costs and working hours. When one looks at this wide range of cost information and the extensive field of application of linear programming, its importance in accounting is doubly underlined. It has been used, amongst other things, in:

- formulating cattle-foods, and other questions of dieting and rationing;
- allocating cargoes to ships and aircraft;
- supplying coal to power stations;
- the economic utilization of scrap metal;
- allocating cash to branch offices;

as well as a whole class of scheduling problems of which John Smith's woodworking is a tiny example.

Some operational research workers say that they are only in business because the accountants have not kept up their homework. Can you really afford to neglect this powerful technique of linear programming any longer? Sir Richard Lovelace's advice of three centuries ago is still topical:

Take then this Mathematick shield,
And henceforth by its rules,
Be able to dispute i' th' field,
And Combate in the Schooles.

THE
ACCOUNTANT

July 1st, 1961

MEMBERSHIP OF ACCOUNTANCY BODIES

As at January 1st

	1961			1960			1950			1940	STUDENTS		
	Total membership	In practice	Not in practice ¹	Total membership	In practice	Not in practice ¹	Total membership	In practice	Not in practice ¹		Jan. 1960	Jan. 1959	Jan. to Dec. 1939
The Institute of Chartered Accountants of Scotland	6,823	1,510	5,313	6,599	1,487	5,112	4,924			4,477	273	323	335
The Institute of Chartered Accountants in England and Wales	33,867	10,183 ³	23,684 ⁴	32,579	9,991 ³	22,588 ⁵	14,632	6,183	8,449	13,473	<i>New Articled Clerks</i>		
											2,992	2,680	1,305
The Institute of Chartered Accountants in Ireland	1,653	481	1,172	1,569	463	1,106	724	258	466	433	<i>New Articled Clerks</i>		
											216	182	72
The Society of Incorporated Accountants (now in voluntary liquidation) ²											<i>New Articled Clerks and Bye-law Candidates</i>		
											—	—	1,363
The Association of Certified and Corporate Accountants	10,817			10,545			7,664	3,253	5,243	7,754	<i>New Registrations</i>		
											1,873	1,513	1,710
											<i>Admitted after passing or being exempted from the Intermediate Examination</i>		
											264	217	285
The Institute of Municipal Treasurers and Accountants	3,300			3,140			1,805			1,242	<i>New Registrations</i>		
											3,442	3,253	1,793
The Institute of Cost and Works Accountants	6,876			6,530			2,710			1,233			

¹ Includes members not in practice who are employed by a firm of accountants.² The Society entered into voluntary liquidation under the Schemes of Integration with the Chartered Institutes on November 2nd, 1957. Its total membership at that date was 11,530.³ England and Wales only.⁴ Includes 4,192 members not in England and Wales whether or not in practice.⁵ Includes 4,010 members not in England and Wales whether or not in practice.

Co-operative Societies – and their Finances

by W. QUINCEY, J.P., a director of the C.W.S. Bank

BEFORE I devote any attention to the specific item of co-operative finance I feel I should give a very brief outline of the Co-operative Movement – for we must understand the motivating idea to some extent, before we can appreciate the reasons for the methods adopted for financing their diversified activities.

The co-operative organization is a movement with a definite social purpose. The ideas gained currency during the 1830s but the official movement recognized today and referred to internationally as 'The Rochdale System' was founded in that Lancashire town in 1844.

Those interested in social history might share with me the surprise I get occasionally, in travelling around, to find evidence of earlier examples in different parts of the world, apparently unconnected and seemingly spontaneous, and wonder what force inspires mankind to these ideas which ultimately find common acceptance. The idea had been preached by Fourier and others to the people of France for a generation before the Rochdale pioneers; and before, at home, Robert Owen, himself a great manufacturer, had attempted to found his

'co-operative communities' and had become for a time the prophet and leader of a great part of the British working class. There had been various successes and a good many failures when eventually a small group of weavers in Rochdale founded their society. One of them had the inspiration of devising something quite fundamental which was to become the mainstay of co-operative participation and development; the idea that the surplus arising from mutual trading should be returned to members in proportion to their purchases. This is the 'dividend', not applied as a reward to capital, but a division of surplus amongst those who create it.

The Rochdale pioneers were very humble people with but slender resources. They subscribed their hard earned shillings and rented a room in which, on appointed evenings, they would attend and weigh out

flour and other commodities for their growing number of members, the resultant profit or surplus being divided at the end of the quarter. After a while they were able to acquire a shop in Toad Lane, now honoured and preserved, and visited by co-operators from all over the world. Meanwhile the idea was spreading to other towns and cities and new societies

were being formed, many of which recently have been, or are about to be, celebrating their centenaries.

As the societies grew in number and influence they met some resistance with regard to supplies and also found themselves competing with one another in their buying operations, so in 1863 they established, with their own accumulated capital, the Co-operative Wholesale Society Ltd, which was to be their central wholesaling and manufacturing organization, the profits of which would be returned to them as dividend on purchases in the same way that they treated their own profits.

This wholesale society, familiarly known throughout the world as the C.W.S. has developed into a very large and highly-diversified organization, much greater than any of the societies who created it. Constitutionally, how-

ever, it is still owned and controlled by its retail-society shareholders, whose completely voluntary support of its products and services tends to shape, and sometimes to limit, the scope of its development.

The C.W.S. is today the main importing, producing, manufacturing and wholesaling organization for the societies in England and Wales. It has a bank, and with the Scottish Co-operative Wholesale Society Ltd, jointly controls the Co-operative Insurance Society, and another special society with tea plantations in India, Ceylon and East Africa.

In 1881, there were 971 co-operative societies in Great Britain with 550,000 members; in 1930 there were 1,379 with 4½ million members; and in 1959, after many amalgamations to increase efficiency and reduce overlapping, the number of societies had been reduced to 889, but the membership (quoting from the latest statistics available) was 12,791,000.

It is usual that there should be one member per



Mr W. Quincey

household, but in that any person over 16 is eligible to join, there is a degree of dual membership in households; from our market research investigations, however, I would say that 56 per cent of the population of Great Britain have some family membership association with the Co-operative Movement. The association is, of course, quite a voluntary one and it is obvious that they do not obtain the whole of their needs from the co-operative, but the idea is closely woven into their domestic economy.

The retail societies, who created the wholesales, did so of their own volition and for their own protection, but still preserve the voluntary association and take their supplies from the wholesale societies if and when the price, quality, and other considerations satisfy them. In practice, this amounts to about 70 or 75 per cent of their 'external' requirements for some of them have productive and service departments of their own.

Autonomous Societies

The 889 societies vary a great deal in size and performance. There are nineteen with more than 100,000 members. The London society, covering a large area north of the Thames, has 1,282,000 members, and on the south side, the Royal Arsenal and South Suburban societies aggregate 635,000 members. There are still, however, 494 societies each with less than 5,000 members. They are all autonomous societies, pleasing themselves, directing their own affairs within the limits of the Industrial and Provident Societies Acts; and whilst their representatives meet under a variety of auspices to determine what courses of action might be good for the movement, they all reserve unto themselves the right of ultimate application. Hence we get great diversity and variety of operation and a patchwork of efficiency and of strength in financial terms.

They have achieved, however, an aggregate annual turnover in Britain in excess of £1,000 million, and the annual surplus which ultimately finds its way to the trading members in the form of dividends on purchases is about £60 million. The C.W.S. annual sales, based on factory or wholesale prices, exceed £468 million (most of the figures I quote will be in millions). It has depots throughout the world, meat factories in New Zealand handling more than a million lambs per year; it is one of the largest purchasers of Danish produce and owns bacon factories in that country; it is a substantial buyer of Canadian wheat and has large and long-standing trading connections with Australian producers. At home, it operates 200 factories for the manufacturing and packaging of foodstuffs, footwear, clothing, furniture, etc. It operates printing works, cotton and woollen mills, and is the largest flour-milling organization outside the big combines. The value of its own productions exceeds £150 million per year and in the food sections, particularly, it handles a significant part of our national requirements. With the retail societies, it is responsible for about one-third of the nation's milk supply.

These are the dimensions of this organization.

In Scotland, similarly, the wholesale society there has a turnover of £88 million with £23 million emanating from their own factories. There are other forms of co-operative productive societies which in the limited time at my disposal I can only touch upon briefly. Some are co-operative co-partnership societies engaged in printing, the making of footwear, clothing, etc., where a different philosophy obtains, and where the profits are distributed in three parts, on wages, on capital, and on trade. Their aggregate turnover is about £6 million per annum. Additionally some retail societies have joined together in local federal activity to operate laundries, bakeries, footwear repairing factories and the like, with an annual turnover of £32 million.

In all these activities I have described, the Co-operative Movement employs 390,000 workers and has a total annual wages bill of £173 million. In this connection I have ignored the many successful farmers' co-operative societies of various kinds; some marketing, and others supplying farmers with seeds, fertilizers, feeding-stuffs and machinery. They are worthy of a separate study and their turnover is growing very rapidly. Most of them are in active trading association with the C.W.S.

The Co-operative Insurance Society Ltd, which I have told you is controlled jointly by the English and Scottish wholesale societies, is a very flourishing and rapidly developing society. It conducts most classes of insurance business and is operated entirely in the interests of policy-holders, only a nominal amount of capital being subscribed by the wholesales. Its total funds now exceed £250 million and it employs nearly 14,000 persons.

There was also formed, as a further expression of the co-operative idea, the Co-operative Permanent Building Society which is one of the foremost building societies – the third largest, I believe – with assets well over £200 million.

Britain's 'Greatest Export'

This co-operative idea, sometimes described as our greatest export, has 'caught on' in all countries of the world. In Russia, before the revolution, it was particularly strong with many millions of members, and it still continues today as a sector of their State-controlled economy. In most European countries there are strong consumer societies on the Rochdale plan, and additionally as in Denmark where the farming industry is substantially co-operative, the producers' societies have been established. In Australia and New Zealand, the dairy producing and marketing organizations are co-operative in character; in Canada and the United States, farmers' societies, retail societies, oil co-operatives and many other types are growing in strength and influence. In India and Pakistan, in China, Malaya, Japan and in Africa they are playing an important part in their developing economy.

The International Co-operative Alliance provides a

means of free association and collaboration between these national organizations. It has in membership forty-eight countries throughout the world representing 150 million co-operators. Some of their societies have just been formed, out of their own slender resources and in the manner of our own pioneers; others are in the rapid-growth stage, whilst many have reached a status in their own countries quite as significant as that of the movement in Britain.

The retail and wholesale societies in Britain are members of the Co-operative Union Ltd. This body was formed in 1869 and has for its purpose the organization of societies and the diffusion of knowledge of the principles of co-operation. It has created co-operative trade associations, but of itself does not trade at all. It is inspirational and educational, and offers access to legal advice relating to the laws affecting co-operative societies and their activities. It convenes an annual congress where delegates from member societies attend – about 2,000 of them – and discuss general policy freely but without absolute commitment. Amongst its many activities the Co-operative Union has an admirable statistical department and I would like to acknowledge that I have drawn very freely, in this address, on the excellent information presented in their recent publication *A Review of 1959 Co-operative Statistics*. From that I have culled the necessary information to give you an aggregate balance sheet of retail societies in Britain, as at the end of 1959.

Aggregate Balance Sheet

The total liabilities amounted to £472.5 million, made up of:

	£ Million
Members' share capital	252.5
Reserves and other funds	37
Savings banks deposits and loans and staffs superannuation funds	112.5
Other liabilities, including creditors	42
Balance for disposal	28.5

The creditors figures represent the normal outcome of prompt and systematic payments, and for traders who supply them a freedom from default or bankruptcy worries.

The 'Balance for disposal' calls for some explanation, in that I said earlier that the surplus arising from a year's operations was £60 million. Most societies prepare quarterly or half-yearly balance sheets and an 'adding-back' of the distribution made at the interim stages will reconcile the figures.

The assets are made up of (in rounded figures):

	£ million
Property, trade	128.5
Property, non-trade	6
Investments	199
Stocks	89
Debtors	34.5
Other sundry assets	4.5
Cash	11
Total	£472.5 million

But you are wondering, and I think it is my special purpose to try to explain, how these societies are financed. I could, in a few words, say that they are financed by savings capital and that would be the whole truth, and a very simple fact. As in the building society movement with its £3,000 million of assets, the whole operation is conducted on the basis of borrowing 'short' and lending or investing 'long'. This brings its own special problems and may be contrary to the prudence you might advocate and it is often said that it cannot work. But it *has* worked – for a hundred years. And it is still working.

Members' Shares

The Industrial and Provident Societies Acts, created to protect and govern co-operative societies, laid down certain conditions interpreted by the Co-operative Union into standard rules, which have been widely adopted by societies. In the society I used to serve, the rules provided that each member should hold at least two £1 shares. They could allow this to accumulate – and think of this in connection with the millions I have mentioned – at the rate of threepence per week. They could, of course, pay the full amount in cash but most of them resorted to the opportunity provided whereby the amount due could be retained from dividends allocated, each half-year. Having left the appropriate six shillings and sixpence, they were free to draw the rest. And quite apart from their own economic needs, they were often encouraged to do so by the special 'dividend week' attractions offered by the trading sections of their society. But in the first quarter of this century the dividend was important in that it provided a means of saving out of weekly trading to meet the cost of those necessary or desirable 'extras'.

Even the modest deduction from dividend of the necessary contribution to shares, had a mildly stimulating effect on thrift and that, together with the possession of a share book, encouraged many to use the account for their savings. The Co-operative Movement has always appealed to the thrifty. I would say from experience that it was always difficult to recruit the very poor who so often suffered exploitation by the credit shopkeeper. And the thrifty even, of those days, meant those who could put aside but an odd shilling or two per week.

Membership rights included the right to vote – one member one vote – to attend members' meetings, and to receive and criticize the balance sheet. The balance sheet presented in great detail the cash account, the expenses account, trading account, often supplemented by information relating to separate departments, and more than anticipated the modern requirements of disclosure in company accounts. The members' meetings were attended by an interesting cross-section of the community, not necessarily equipped with a knowledge of accountancy but with a native shrewdness which sustained them in their varying trials and experiences. Out of these experi-

ences and this pride of ownership, the societies continued to grow.

The Industrial and Provident Societies Acts in those days limited the share capital to £200 per member, but permitted loan capital to be acquired in certain relationships to share capital. Since then, in the light of inflation and the pressure from consumer and agricultural societies, the limit has been increased to £500 and may be further increased to £1,000. The fundamental principle, as I have explained, was that the members should provide the working capital by their savings, and they should expand their operations only at the rate which their resources would permit. A bank overdraft was a sure sign of weakness and was to be resisted by all means. Although the societies moved slowly by modern standards, they moved rather majestically. Many of the 'central premises' of the earlier formed northern societies, erected at the turn of the century, are a monumental tribute to their faith and courage. They led the way in departmental store development and were often the only examples of that kind of store in their community.

Capital Requirements

I have said that basically the surplus arising from these and all other activities should be distributed as dividend on purchases. By their enterprise they were able not only to maintain attractive dividend rates but to pursue a fairly rigorous policy of depreciation, and thereby create collectively-owned capital in addition to that subscribed. This policy was pursued almost to the point of obsession by some societies with the idea that fixed assets should be eliminated as speedily as possible and regardless of their expected life. The resultant effect of a period of low overheads and an artificial sense of net earnings, had its ultimate disadvantages. In a more competitive era they had to fight a rearguard action against falling dividend rates arising from narrower margins, and were reluctant to add further to that decline by modernizing their now out-moded premises, which would bring heavier burdens of long excused overheads. That phase has almost passed and there is a surge of conversion and modernization of premises and services. This raises anew the question of capital.

You will have appreciated by now that in the Co-operative Movement capital is a commodity, to be acquired at as reasonable a cost as circumstances permit. It is not the controller, nor is it the principal beneficiary from trade. The Industrial and Provident Societies Acts ensure that this shall be so, and ceiling rates are determined for share and loan capital.

The change in the share interest rates is a matter to be determined by members' meetings but boards of management can arrange loan capital at rates they determine within the limits of the Acts.

May I interpose here, that the war years have made a great difference in co-operative interest rates: societies had more funds than they could deal with in the war years; they lowered the rates to 2½ per cent or

3 per cent; they had a large inflow of capital; and not many of them have gone, or wished to go, to a higher rate since. In consequence, there are individual societies which are short of capital but there are many others having more than they require. Most of them are now paying 3 per cent to 3¾ per cent on shares; a similar amount on loans, perhaps and, more recently, because of the special needs in some localities, Development Bonds are being sold, carrying an interest rate of 5 per cent. They happened to be launched before Bank rate went up last year and the rate was a little unreal but now we have Bank rate somewhat back again there may be an increasing interest in these Development Bonds. The main problem is the 'patchiness' exemplified particularly in the new towns, but generally the 'pooling' of funds through the C.W.S. Bank has enabled resources to be redistributed to the areas in need.

Such is the autonomy of societies and their pride in their local affairs that when they ought to amalgamate and gain increasing strength some of them tend to adopt a more parochial attitude. Opportunity to develop in their own particular territory, even though they are ill-equipped to do it, is still regarded as their prerogative. In some areas they have taken on the burden of trying to cater for a new town out of the resources of their own limited membership. This is a challenge to our original concept of expansion within the limits of expanding resources. But in a new town unless you get in at the planning stage it is too late. Facilities have to be created before people arrive or before they come into membership. This strain upon local resources has been met, as I have said, from the pool of funds of the whole movement.

Investment of Funds

Let us take a look at these funds. The retail societies' funds were £252 million in share capital; £39 million in loans; £7 million in savings banks; £65 million in superannuation funds; and reserves, £37 million – about £400 million, shall we say, at the end of 1959. Roughly one-half of this is retained in their local enterprises; the rest is invested; £35 million in British securities, investment inspired by patriotism in the war, and to some extent to the fact that large funds could not be employed at the time, or even invested other than in Government securities. They have £27.9 million in local authorities, because there was an affinity, they often felt, between themselves and their local town or city; but latterly some have switched funds to get a little higher reward in local government and similar securities even though they have not been willing to concede a higher rate of interest to their own members. Sometimes regretting the lack of liquidity when they needed it.

A small proportion, about £0.5 million is in colonial investment; £1.8 million in joint stock companies; £7.5 million in building societies and, in the wholesale societies, £102 million; in the other federal societies perhaps £12 million.* In house property advances they still have outstanding £11 million, although not

many retail societies today advance money on house property.

They have greater need for their money today in trading operations and are prepared to leave the field of home-ownership to the building society movement which is itself a form of mutual non-profit-making activity.

I now turn to statistics relating to the wholesale societies. Remember that £102 million of the retail societies' funds are reinvested in the two wholesale societies. C.W.S. itself has £30 million of share capital, subscribed by its member societies; £61.6 million of loans from retail societies and others and has reserves of £31.8 million, which reserves exceed the share capital. Thus funds and liabilities total £123 million. The Scottish Wholesale Society has a capital liability of £20 million. Together, the two wholesales societies own the joint E. & S. C.W.S. with tea plantations in Ceylon, India and East Africa – an organization with a very substantial turnover, and this is financed by way of £4 million of capital which is derived from the two wholesale societies augmented by its own accumulated reserves.

The C.W.S. Bank has a turnover of £5,500 million a year. It conducts the banking accounts of the English wholesale and the retail societies, and many local authorities, trade unions and individuals. It has large funds entrusted to it and conducts its hundreds of thousands of accounts through numerous branches and retail society offices.

I have quoted an analysis of retail societies' investments at the end of 1959. There was a change in pattern from 1946 to 1959 in which you might be interested. In 1946 we had a large accumulation of funds due to the fact that consumer members invested their non-spendable earnings with societies and societies could not, in common with other sections of the national economy, replenish or expand their businesses. We had in total about £280 million at that time. It went down to £211 million in 1952; remained fairly constant at £213 million in 1958 and was about £200 million at the end of 1959. This change had its consequential effect upon the retail society investment in the wholesale society. In 1946 they had nearly £200 million; in 1959, only £100 million. In that period their combined values of properties, stocks and debts had increased by £173 million in thirteen years, which reflects inflation in stock values and debts, but it also indicates a period of considerable development quite contrary to the picture painted by those who are opposed to the movement. These enterprises and developments are rarely referred to in the Press as news, and completely overlooked by that section which devotes much time and attention to the criticism of minor faults or alleged weaknesses.

Self-service Pioneers

These developments have taken place in a wide area, involving a large number of societies. We were the pioneers of the self-service idea in this country

and today more than 50 per cent of the self-service shops are co-operatives.

This total 'development' expenditure of £173 million was offset to some degree by growth of superannuation funds invested within the societies and the effect of inflation on 'creditors' item.

It is true that substantial sums are still available – a lot of it tied up – but still available for some degree of co-operative development; I would think that there might be in the region of £120 million to £130 million. A lot depends upon the maturity of the investments, but I can say that there are liquid funds available from one source or another within the movement which need not deter any co-operative society from embarking on a reasonable degree of expansion, provided they are willing to pay the market rate for their capital rather than rest upon the 3 per cent or 3½ per cent they pay to their members. One can imagine chief officials and secretaries of societies who are still retaining capital, not wishing to support the idea of increasing the general rate of share interest for it increases the cost of the old moneys, without commensurately increasing the volume of the new. You may wonder why people leave it there. Curiously enough – and I have some association with the building society movement where people are more sensitive to interest rates – I have found that most co-operators are more concerned with security and accessibility than in higher rates. They are being tempted into unit trusts in this 'new world' and new version of capitalist prosperity. They are being attracted, by one means and another, to different forms of investment. But, substantially, their attitude remains unchanged, with a large degree of confidence in the local institutions which they still own and still control, voluntarily, perhaps, or should I say, involuntarily, for there is a passive attitude in all democratic institutions today. One must assume they have – they must have – unbounded faith in their elected representatives and in their appointed officials.

Continuing Development

I have gone on a long time and have, perhaps, attempted to cover more than I ought to have done in the time permitted, but may I say in conclusion that I have quoted freely from statistics which are readily available and which have been recently published. Other books on the Co-operative Movement and its history may be worthy of attention by the accountant who may feel that a large sector of our national economy is unknown to him. I am sure they will be worthy of attention. He might, as an accountant, be pleased to find that the co-operative balance sheet anticipated by many years some of the altruistic, or realistic, requirements of the Companies Acts recently amended. I would say that company balance sheets now reflect more clearly the true position of companies and their associates and I am sure this is pleasing to you, who, through your professional bodies have inspired many of the changes. You may also feel some

smug satisfaction that in some features your company balance sheets go even a little further today than the co-operative pattern.

You may feel, judging it by the usual standards of company finance, that it cannot go on. We, for our part, are satisfied that our system is sound and that our concept of capital and its reward is one which will continue to sustain us in our continuing development and expansion.

If I might venture into the realm of company finance I would expect in this age of managerial influence there may be a growing reluctance to meet the increasing burden of finance, with its insatiable appetite. It may be right and proper to reveal the present-day value of assets and to meet depreciation charges capable of replacing them at modern values; it may be appropriate to 'adjust' the capital to this new concept, but the burden of trying to maintain the old artificially high rates of capital dividend on the uplifted amounts may prove too burdensome. I can well imagine some members of our new 'managerial society' not motivated only by financial considerations, casting a wistful eye on the co-operative system

which modestly, yet consistently, rewards the capital it employs.

Conversely we in the Co-operative Movement are in danger of failing to recognize the appropriate interest rates on savings. Some societies are prone to rest on the artificially low rates occasioned by the war years and even to postpone or evade necessary developments or modernization lest they have to be financed at the higher rates prevailing today. These societies happily are a small minority. The Commission, of which Mr Gaitskell was chairman, which the movement appointed a few years ago to examine critically and report on our general affairs, did so with considerable frankness. Their references to this minority received a disproportionate amount of publicity and was used by some of our critics to create a false image of a decadent, unenterprising movement.

We dared to face that process of critical self-analysis and I hope I have portrayed to you ample evidence of our vitality, our capacity, and the resources necessary to continue our work with the greatest confidence.

Weekly Notes

Banks, Clubs and Income Tax

THE Court of Appeal on Monday dismissed the appeal of the manager of the Pall Mall branch of the Midland Bank against Schedule E tax on his £21 subscription to the Devonshire Club defrayed by his employers. They thus affirmed the decision of Mr Justice Danckwerts (*Brown v. Bullock* (39 A.T.C. 468), who followed *Lomax v. Newton* (32 A.T.C. 312) and *Griffiths v. Mockler* (32 A.T.C. 339)).

The first assessment on Mr Brown for 1954-55 was £2,844. An additional assessment was made on £27, being the £21 mentioned above plus £6 representing half of Mr Brown's subscription to the R.A.C. which the Bank also defrayed. It was admitted that the £27 constituted emoluments for Schedule E purposes but Mr Brown argued that the money was expended wholly, necessarily and exclusively in the performance of his duties as manager. The grounds for this argument were that the Bank required managers to foster local contacts and to join the clubs best suited for that purpose. He entertained bank customers out of funds provided by the Bank at the clubs and also kept in touch with members of the Devonshire Club who were also customers of the Bank. According to *The Times* of June 24th and June 26th the judges in

the Court of Appeal made some rather scathing comments about the Bank's practice in this respect. They held that Mr Brown did not pay the subscription necessarily in the performance of his duties. Lord Justice Donovan said the test was not whether the employer imposed the expense but whether the duties did, in the sense that, irrespective of what the employer might prescribe, the duties could not be performed without incurring the particular outlay. Lord Evershed severely criticized the distinction which the Income Tax Acts draw between expenses for Schedule E and expenses for Schedule D. In this he is only following a long line of critics; it is remarkable that the Legislature does so little about it.

The Finance Bill

THE Committee stage of the Finance Bill having been concluded, it has now been republished as amended¹. A new clause 9 provides for police prosecutions in respect of excise duties, the administration of which has been transferred to local authorities (game dealing and killing, gun licences, and hawkers', money-lenders', pawnbrokers' and refreshment house licences). Apart from this there has been very little change indeed and certainly none of the wholesale second thoughts which the Government inflicted on the House of Commons during the course of passing the Finance Act, 1960. The close of the Committee stage was marked by numerous attempts to introduce new clauses which would give special reliefs but the Government turned a deaf ear

¹ H.M.S.O., 2s net.

to these appeals. Such good progress with the Bill having been made, the time is now very near when the Chancellor will be able to apply his economic regulators, such as putting up the price of a packet of cigarettes by several pence, or the price of a new car by many pounds.

Information on Stock Changes

AN appeal has been made by Sir Richard Powell, Permanent Secretary to the Board of Trade, in a letter written to the chairmen of about 800 companies asking for their co-operation in speeding-up the availability of information on stock changes. These companies already contribute to the stock statistics which are collected and issued by the Board of Trade.

Sir Richard underlines in his letter the important statistical part which these returns play in studying the economic well-being of the country. He points out that manufacturing industry alone holds about £5,500 million of stocks and in a quarter of a year these have varied as much on occasion as from plus £170 million to minus £40 million. At the present time some ten weeks elapses before the estimates can be made. This can be improved only by the speedier return of information from contributors and the Government is asking companies to collaborate in this — even a week's difference would be helpful.

This appeal fits into the general attempt by the Government to speed up the publication of economic statistics. Naturally, the more statistics fluctuate according to an unpredictable pattern the more difficult it is to use historical data stretching back into the past and the more important becomes information on movements which have taken place in the recent past.

E.F.T.A. Council in London

THERE are signs in the latest exchanges between British and French officials that the French are willing to concede that the British are prepared to make their terms, as yet to be defined, with the Treaty of Rome. To that extent the French attitude to the acceding of this country to the European Economic Community is bound to soften somewhat.

Meanwhile, the ministerial council of E.F.T.A. has held a two-day meeting in London this week. The meeting will have provided an occasion for the British to reiterate that they do not propose to 'go it alone' either without the rest of the Commonwealth or without the other members of E.F.T.A.

The most important question which has been discussed this week, apart from the wider issue fissions of the E.F.T.A. and the E.C.M., are the dismantling of trade barriers among the Seven. A 10 per cent tariff cut will be made on July 1st bringing the total reduction so far up to 30 per cent. Sweden, Switzerland and the United Kingdom are anxious that E.F.T.A. should make the same cut of 10 per cent as

the E.C.M. will make on January 1st, 1962, so that the two systems keep in line. If this is to be accomplished a decision by E.F.T.A. members will have to be made this summer.

New Licence for Air Transport

LAST week the Air Transport Licensing Board gave Cunard-Eagle a fifteen-year licence to fly the North Atlantic route in competition with B.O.A.C. This right is for a daily return flight between London and New York, and gives a basis for commercial planning but probably hardly sufficient scope as yet to make a profit.

Cunard-Eagle has other obstacles to overcome before it can start flights. B.O.A.C. has the right to appeal and is going to do so, and the Civil Aeronautics Board in the United States have still to grant a licence.

This precedent for trying to bring increased competition into air travel is of immediate importance. The Air Transport Licensing Board has seventy-eight applications to deal with from independent air lines wishing to start up in competition on regular routes with B.E.A. over Europe.

Trade Agreements:

Further Removals from the Register

THE Board of Trade has issued instructions to the Registrar of Restrictive Trade Agreements under Section 12 of the Restrictive Trade Practices Act to remove from the Register all particulars of four agreements. These are an agreement between the members of the Coal Preparation Plant Association, one between members of the Yarn Spinners' Association, one between members of the Cotton Yarn Doublers' Association, and one between members of the Rayon Staple Spinners' and Doublers' Association.

The agreement on Coal Preparation Plant concerns an arrangement among members to report inquiries so that the secretaries can act as an information centre on scope and extent of customers' requirements. The two agreements in the cotton textile industry relate only to recommended standard conditions of sale in the home market. The one in the rayon industry also concerns conditions of sale, in this case for rayon yarns in the home market.

The Restrictive Practices Court last week issued a judgment on the Linoleum Manufacturers' Association's Agreement. In a reserved judgment the Court has said that the agreement between the members of this association has been contrary to the public interest. The Court added, however, that the association had adapted its activities and machinery to meet the criticisms and recommendations of the Working Party of the industry and of the Monopolies Commission whenever considered practicable.

Tales of a Tax Man

by HAROLD E. COX

Our 'Industrious Accountant' is taking a holiday; he will be back in our issue of August 5th.

I - THE LIGHTER SIDE OF TAXES

AFTER thirty-six years as an Inspector of Taxes, I am now out to grass. During these years, I have been stationed in nine towns; in South Wales, in the Midlands, in London and on the south coast; a fairly wide experience of places and people.

Inspectors of Taxes are frequently considered to be unimaginative, dessicated and officious, bound with red tape and surfeited with forms - which may be sometimes true - but of course they are very much like other men (including accountants), dull and dour or bright and cheerful, thin and fat, introverted and extroverted, wine-bibbers and tee-totalers, uxorious husbands and misanthropic bachelors, just a bunch of ordinary men doing possibly an extraordinary job.

It has been alleged that Lewis Carroll had his Inspector of Taxes in mind when he wrote:

'How doth the little crocodile,
Improve his shining tail
And pours the waters of the Nile
On every golden scale:
How cheerfully he seems to grin,
And neatly spreads his claws.
And welcomes little fishes in
With gently smiling jaws.'

The evidence is incomplete.

It is perhaps that the description 'inspector' sounds rather forbidding. There is the inevitable association with other inspectors - bus, police, sanitary, etc., to whom most of us have become allergic in our modern State-blinkered society. The old title of 'surveyor' had a kinder air about it.

But in spite of all this, the much maligned tax-gatherers do their job with reasonable grace and, in my experience, few real, troublesome difficulties crop up. Naturally no one likes to pay taxes. It was Edmund Burke who wrote: 'It is no more given to a man to tax and to please than it is for a man to be in love and be wise.'

Even those who are most vocal and voluble with their criticism will admit that the British system of taxation is no doubt the fairest in any country today. There is, inevitably, a certain amount of evasion and avoidance because the human conscience is peculiarly elastic concerning income tax. It is nevertheless nothing so well organized and universal as it is in most European countries, and in the U.S.A. A friend of mine lived in a southern European capital for many years and he assured me that the amount of non-residence tax he paid depended mainly on the gifts he took when he called each year to see the

Revenue officer. On one occasion a bottle of Scotch whisky and 200 English cigarettes secured him exemption for that year.

While serving in a London office an American called to see me about his tax. He sat down, opened his case, and took out a box of cigars which he pushed across to me. When I refused them and cautioned him he commented: 'Gee, you Revenue guys over here don't know enough to get in out of the rain.'

Buttering up the system does not, however, make it any the more acceptable when taxes are so cripplingly high as they are at present. What a far cry it is to 1874 when income tax was 2d in the £. Jean Baptiste Colbert, a famous French financier, wrote, 'The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least amount of squawking'. And incredible as it may be, this is what our Inspectors of Taxes seem to be achieving.

I am not pretending for a moment that inspectors are popular. No one ever formed a fan club for me or even asked me for my autograph. Generally speaking, nobody thinks very highly of the man or of his job. I recall a letter which ran:

'I have recently been discharged from hospital after a long illness and the doctor has advised me to take things very easy. I should be grateful, therefore, if you would find me a vacancy in your office.'

Someone once sent me what purported to be a paragraph from a newspaper: 'The man who dived from the South Pier and rescued an Inspector of Taxes from drowning wishes to remain anonymous', and beneath this was written, 'And so does the man who pushed him in.'

And there was the other newspaper report which said: 'A fire broke out in the local income tax office last Wednesday evening. The fire brigade arrived on the scene far too quickly for any serious good to be done.' Apochryphal? By no means.

William Davies, the Covent Garden bookseller, at whose shop Boswell first met Dr Johnson, attributed his failure to become a philosopher to the fact that 'cheerfulness keeps breaking in'. I frequently experienced this intrusion of cheerfulness and it lightened the job considerably. In life man loses firstly his illusions, secondly his teeth, and lastly his follies. My illusions went early, my teeth much later, but my follies still persist. They have enabled me always to see the human aspects of the job, the humorous asides and the quirks of human character. These all add up to a thousand memories which keep echoing from the past.

An accountant once wrote to me: 'Since you left, life has become highly proper, highly official, eminently departmental and damned dull.' The following verse of doggerel was enclosed with a remittance:

'Dear Mr Bloodsucker, I'm sorry to see
That people are calling you names with a B.,
In spite of your job you're still human I know
So best wishes for Xmas and here is your dough.'

Finance and Commerce

Dental Manufacturing

CONTINUING the theme of company accounts prepared to cover a year of expansion by acquisition, this week's reprint is of the 1960 accounts of The Dental Manufacturing Co Ltd. Group trading profits for the year totalled £370,638 against £207,531 and the notes to the accounts show the additions to the organization during the year, the post acquisition periods for which profits have been taken into the accounts and the issue of £517,731 of ordinary capital of which £267,686 was for the acquisition of two groups - Norfleet Holdings Ltd and Cheswick & Wright Ltd. The third company added to the group during the year was The Crittall-Aquafont Group Ltd.

Announcements of these acquisitions were made at various times during the year. Commenting on

'what must be regarded as an exceptional phase of expansion', Mr Frank Hawtin, the chairman and joint managing director, admits that the information given piecemeal through the year calls for a certain amount of collation to be of any value for future reference.

This collation is provided by a schematic diagram showing the divisions into which the constituent companies and trading units fall, and the proportion of their contribution to profits.

Four Divisions

In the group there are four main divisions: dental and chemical, engineering and construction, industrial catering, and transport and general. The dental and chemical division is the basic, original business comprising the Dental Manufacturing Co itself, the first four companies shown as owned throughout the year in Note 1 to the accounts, plus C.M.W. Laboratories, The Disinfectant Supply Co, Empire Distributing Co (Disinfectants) and Joseph Storey & Co - all out of the Norfleet Industrial Holdings group.

Industrial catering is covered by Staines Kitchen Equipment, Crittall-Aquafont and Crittall-Froy,

THE DENTAL MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

Consolidated Profit and Loss Account for
the year ended 31st December, 1960
(Including Profits of Subsidiaries as shown in Note 1)

	1960		1959	
	£	£	£	£
Group Trading Profit for the year	370,638		207,531	
<i>After charging: -</i>				
Depreciation	68,241		34,718	
Directors' Emoluments				
Fees	1,800		1,500	
Salaries and Pension Contributions	11,810		10,285	
Interest: Bank Overdraft	15,463		4,980	
Debenture Stock	420		—	
	<u>£97,734</u>		<u>£51,483</u>	
<i>And crediting: -</i>				
Investment Income	£1,071		£237	
Deduct: Taxation based on above Profit				
Income Tax	143,484		81,230	
Profits Tax	45,548	189,032	21,650	102,880
Group Profit after Taxation	181,606		104,651	
Less: Minority Shareholders Interest	663		—	
Profit after Taxation attributable to the Dental Manufacturing Company Limited (Note 2.)	180,943		104,651	
<i>Deduct: Appropriations:</i>				
Interim Dividend 6½% less Income Tax	25,525		16,316	
Proposed Final Dividend 10% less Income Tax	48,027	73,552	40,203	56,519
Retained Profit	107,391		48,132	
Add: Unappropriated Profit brought forward	124,865		76,733	
	232,256		124,865	
Less: Costs of increases in authorised and issued capital and relating to acquisitions during the year	10,086		—	
Unappropriated Profit carried forward	<u>£222,170</u>		<u>£124,865</u>	

The Notes on page [19] form part of these accounts

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	£	£	£	£	£	£
Issued Share Capital (Note 4.)						
	784,114					
Reserves:						
Capital (Note 5.)	268,066					
General Revenue	200,000					
Unappropriated Profits	222,170					
	<u>690,236</u>					
Total Capital and Reserves		1,474,350				
Minority Shareholders Interest		11,829				
Future Taxation:						
Income Tax 1961/62	199,399					
Tax Equalisation	<u>12,500</u>					
		<u>211,899</u>				
2½% First Mortgage Debenture Stock 1955/89 of a Subsidiary (including accrued interest)				71,050		
Current Liabilities:						
Creditors and Accrued Liabilities	452,328					
Taxation	275,472					
Bank Overdraft (Secured)	296,291					
Proposed Final Dividend less Income Tax	<u>48,027</u>					
				<u>1,072,118</u>		
Total Fixed Assets:						
Stock and Work-in-Progress at Cost or lower realisable value	862,466					
Debtors and Prepayments	943,237					
Inventories at Cost	8,435					
Quoted (Market Value £800)	516					
Tax Reserve Certificates	6,000					
Bank Balances and Cash in Hand	<u>18,073</u>					
				<u>1,838,727</u>		
FRANK HAWTHIN } Directors FRANK G. BAKER }						
					<u>£2,841,246</u>	
The Notes on page [19] form part of these accounts						
						<u>£1,333,712</u>

transport and general by Sommerfield & Thomas, Jos. Walsh (Darwen), William H. Hood & Co and Norfleet Industrial Holdings. Engineering and construction includes the Cheswick & Wright Co and its subsidiaries, Ubique Engineering, Leonard Franklin (Contractors), the Shepherd Bros. companies and Rising Bridge Properties.

Of group profits, engineering and construction supplied 41 per cent, dental and chemicals 37 per cent, industrial catering 14 per cent and transport and general 8 per cent. In his review, Mr Hawtin describes the activities of each division and of the constituent companies.

Next Year

The Dental Manufacturing accounts and the attendant notes, coupled with the group 'family tree' and Mr Hawtin's comments, combine to give shareholders an adequate view of the developments of an obviously extremely busy year and of the current earning power of the group, but they do not get down to the bones of the business in the same way as the information supplied in the Thomas Tilling report. The Thomas Tilling accounts were reprinted in our issue of June 17th last.

Those accounts showed clearly the impact of new additions to the group, the earnings by divisions (in plain figures as well as percentages) and the apportionment of the increase in earnings between profits derived from existing businesses and from earnings coming into the group for the first time.

Twelve months hence, after a year of more consolidation and less industrial adventure, the Dental Manufacturing accounts should be less complex than those now presented and a more precise view of operations showing turnover and profits by divisions should be possible. In a group now four times bigger than it was three years ago, and with 75 per cent of the expansion coming from new acquisitions, a detailed breakdown of earnings should be provided.

New Directors

Commenting on the appointment of five directors to the board, Mr Hawtin draws shareholders' attention to the point that each of the five holds an executive position in one or other divisions of the group.

Combining direction and management in one administrative body is often criticized. Mr Hawtin, however, sees no justification for any hard and fast rules 'as the size and scope of an organization must determine its individual requirements'. So far as the Dental Manufacturing group is concerned, Mr Hawtin adds that 'the advantage of a board composed mainly of executives conversant with the potentials of our subsidiaries can hardly be disputed'.

On the broad aspect of expansion policy the point made is that the managerial skills lie in the field of light engineering construction and the aim is to ensure a continued rate of growth commensurate with the resources available for the purpose but confined, in the main, to extensions of traditional manufacturing or closely allied activities.

THE DENTAL MANUFACTURING COMPANY LIMITED

Notes to Accounts
31st December, 1960

Note 1.

Companies Consolidated with The Dental Manufacturing Company Limited:

Owned throughout the year:—

The Dental Manufacturing Company (Sales) Limited
Dental Rentals Limited
The Palatine Dental Manufacturing Company Limited
Compagnie D. M. France
The Staines Kitchen Equipment Company Limited

Acquired during the year. Profits included from dates of acquisition as under:—

Ubique Engineering Limited	...	...	29th March, 1960
Norfleet Industrial Holdings Limited and Subsidiaries	...	...	20th April, 1960
Sommerfield & Thomas Limited	...	...
C.M.W. Laboratories Limited	...	...
Shepherd Bros. (Baxenden) Limited	...	...
The Disinfectant Supply Co. Limited	...	...
Empire Distributing Co. (Disinfectants) Limited	...	...
Joseph Storey & Co. Limited	...	...
William H. Hood & Company Limited	...	...
Leonard Frankland (Contractors) Limited	...	...
Shepherd Bros. (Lancs.) Limited	...	...
Jos. Walsh (Darwen) Limited	...	...
Rising Bridge Properties Limited	...	...

The Crittall-Aquafont Group Limited and Subsidiaries ... 1st October, 1960
Crittall-Froy Limited

Cheswick & Wright Limited and Subsidiaries 21st November, 1960
Richard Sizer Limited
Richard Sizer Constructors Limited

Profits of Subsidiaries have been included in the Consolidated Profit and Loss Account from the dates of acquisition. All Companies have made up Accounts to 31st December, 1960, and where necessary Profits have been apportioned on a time basis.

On this basis the Group Trading Profit for the calendar year 1960 would be £491,167 of which £120,529 relates to the periods prior to acquisition of Subsidiaries acquired during the year, leaving £370,638 credited to the Consolidated Profit and Loss Account.

Note 2.

£81,454 (1959 £69,917) of the Group Profit for the year of £180,943 (1959 £104,651) is dealt with in the accounts of the Parent.

Note 3.

The Interim Dividend was declared on a Capital of £625,114 (1959 £266,383). The proposed Final Dividend is on a Capital of £784,114 (1959 £375,069).

Note 4.

The issued Share Capital was increased during the year by £517,731, as follows:

Issued to acquire Norfleet Industrial Holdings Limited	...	£ 108,686
Issued to acquire Cheswick & Wright Limited	...	159,000
Capitalisation of Reserves	...	250,045
		<u>£517,731</u>

Note 5.

Capital Reserves consist of:	£	£
Share Premium as at 1st January, 1960	...	231,998
Add: Premium on shares issued on acquisition	...	219,691
		<u>451,689</u>
Deduct: Amount applied in an Issue of Share Capital	...	250,045
		<u>201,644</u>
General Capital Reserve as at 1st January, 1960		66,422
		<u>£268,066</u>

Note 6.

The Parent Company has a Contingent Liability in respect of Bills Discounted amounting to £12,497 (1959 £19,367).

Note 7.

Foreign currency has been converted at the rate ruling at 31st December, 1960.

Note 8.

No Depreciation has been provided this year on certain Freehold Properties, because, in the opinion of the Directors, none is necessary.

CITY NOTES

IN the old days, Wimbledon fortnight following the Test at Lords was always a dead period in the stock-markets. This year the period is dead but not for Test and tennis reasons. The markets want a new lead – and are unlikely to get one for some while.

The Chancellor having made the type of speech that almost every post-war Chancellor has had to make at some time during his period of office, is expected soon to introduce anti-inflation regulators – even if they do include the inflationary measures of raising beer and tobacco duty.

Mr Selwyn Lloyd's plea for wage restraint was immediately answered by the unions with fresh determination to press home wage claims. Higher tobacco and beer duty will probably do little more than substantiate those claims.

Ordinarily the stock-market would be translating this into terms of inflation and buying of equities. But manufacturers are finding that they cannot pass on inflated costs – particularly in export markets. Profit margins are being squeezed, and squeezed hard. Courtaulds' profits last year fell by £3 million even though sales rose by £32 million.

Figures like that are taking the growth gloss from the equity markets and it will take something more than interim measures by the Chancellor to put the gloss back again.

RATES AND PRICES

Closing prices, Wednesday, June 28th, 1961

Tax Reserve Certificates: interest rate (26.11.60) 3%

Bank Rate

May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%

Treasury Bills

April 21	£4 9s 9.01d%	May 26	£4 8s 8.74d%
April 28	£4 8s 1.71d%	June 2	£4 8s 9.61d%
May 5	£4 7s 4.27d%	June 9	£4 9s 4.14d%
May 12	£4 6s 5.04d%	June 16	£4 10s 0.42d%
May 19	£4 8s 3.18d%	June 23	£4 10s 8.47d%

Money Rates

Day to day	3½-4½%	Bank Bills	
7 days	4½-4½%	2 months	4½-4½%
<i>Fine Trade Bills</i>		3 months	4½-4½%
3 months	5½-6%	4 months	4½-4½%
4 months	5½-6%	6 months	4½-4½%
6 months	5½-6½%		

Foreign Exchanges

New York	2.79 1/8-1/8	Frankfurt	11.10 1/2-1/2
Montreal	2.87 1/2-1/2	Milan	173 1/2-2
Amsterdam	10.02 1/2-1/2	Oslo	20.00 1/2-1/2
Brussels	139.36 1/2-1/2	Paris	13.67 1/2-1/2
Copenhagen	19.32 1/2-1/2	Zürich	12.04 1/2-1/2

Gilt-edged (revised List)

Consols 4%	59 1/8xd	Funding 3%	59-69	80 1/2
Consols 2½%	38 1/2xd	Savings 3%	60-70	77 1/2
Conversion 5½% 1974	91 1/2	Savings 3%	65-75	70 1/2
Conversion 5% 1971	89 1/2xd	Savings 2½%	64-67	83 1/2
Conversion 3½% 1969	83 1/2	Treasury 5½%	2008-12	87 1/2
Conversion 3½%	52 1/2	Treasury 5%	86-89	83 1/2
Exchequer 5½% 1966	98 1/2	Treasury 3½%	77-80	69 1/2
Funding 5½% 82-84	91 1/2xd	Treasury 3½%	79-81	69 1/2
Funding 4%	60-90	Treasury 2½%		38 1/2
Funding 3½%	99-04	Victory 4%		96 1/2
Funding 3%	66-68	War Loan 3½%		52 1/2

Reviews

Australian Company Mergers 1946-1959

by JOHN A. BUSHNELL, B.A.(YALE), M.A.(MELB.); Melbourne University Press; Cambridge University Press, London. 37s 6d net.

In Australia, by all accounts, just as in Britain and many other countries, the merger movement has bitten deep into the fabric of industrial and commercial development during the post-war years.

In his analysis of the subject, the author (an American who went to Australia in 1955 on a Fulbright scholarship) turns his critical gaze upon a varied assortment of over 1,100 Australian mergers; the term 'merger' in this context embracing all forms of take-overs, amalgamations and acquisition of controlling interests. Seen through British eyes, of course, the amounts involved were generally in a much lower scale than over here; for instance, there

were only twenty-three mergers over £A1 million recorded between 1947 and 1956.

The material is examined in two parts, broadly coinciding with the change in the economic climate from post-war boom (1946-55) to what the author aptly describes as 'restrained prosperity' (1956-59).

As to the reasons for all these mergers, Mr Bushnell believes that several causes affect each merger in varying degrees of importance, though the factors influencing the sellers are usually different from those confronting the buyers. Indeed, there is a very familiar ring about the reasons cited, all of which seem to be paralleled by British experience. The difficulties in obtaining adequate funds for expansion, the effects of taxation (especially death duties, personal income tax, and private company tax), and the problems of recruiting a trained management team are very persuasive reasons from the seller's point of view. Although these factors affected most public unlisted and many listed, i.e. officially quoted, public companies, they almost undermined the very existence of the closely held proprietary companies – which roughly correspond with our

private companies. Consequently, the trend away from proprietary organization to listed public company status has been both widespread and continuous.

On the buyer's side, the increasing search for economies of scale, whether in production, management or marketing, has been a contributory cause. Then many firms have branched out geographically into interstate markets by buying up an existing firm. Finally, diversification has been an important element in the merger activity.

Altogether, this new work is a thorough and competent study of the causes and consequences of company mergers during an eventful decade in Australian business history.

The Skills of Interviewing

by ELIZABETH SIDNEY and MARGARET BROWN. (Tavistock Publications Ltd, London, 35s net.)

Interviewing applicants for jobs can be a most unrewarding experience; just how unrewarding it may be is often realized after the person engaged has been on the staff a few months. In some cases the task of selection of senior executives can be farmed out to the new organizations dealing with top personnel appointments, so that the principal's final choice lies between a mere handful of suitable candidates. But, in the last resort, an interview must take place and many employers are poor interviewers. From this book by two experienced lecturers on industrial psychology, such people may learn a great deal.

The exposition of basic principles apart, there are numerous case studies of interviews which bring out the weaknesses and merits of various types of interview for all types of staff. This book should fill an important gap in management literature.

Terrell and Shelley on the Law of Patents

Tenth edition, by K. E. SHELLEY, Q.C. (Sweet & Maxwell Ltd, London. £6 6s net.)

It is ten years since the ninth edition of this well-known and standard work was published and in that time there have been numerous decisions on the construction of the Patents Act, 1949, besides the appearance of the Patents Rules, 1958. This new edition brings the book up to July 1960 and is likely to be of great utility for many years to come. Happily, changes in patent law are not nearly so frequent as in tax law.

Every effort has been made to make *Terrell* as comprehensive and self-contained as possible. There are 365 pages of exposition of the law, and advice on the practical problems of protecting a patent from infringement. The exposition includes verbatim reproduction of judicial utterances in leading cases on patent law, which largely save the trouble of turning up the particular reported case.

Following the exposition is a series of valuable appendices. Part I contains the Patents Act, 1949, amending Acts, statutory instruments, and Rules of

the Supreme Court. Part II sets out certain unrepealed provisions of enactments referred to in the Second Schedule to the Patents Act, 1949, and certain other Acts relating to patents, including Sections 316-322 and 472 of the Income Tax Act, 1952. Part III consists of an unofficial English translation of the International Convention for the Protection of Industrial Property, signed in Paris in 1883 - subsequently revised in Brussels in 1900, in Washington in 1911, in the Hague in 1934, and in Lisbon in 1958 - and setting out the convention countries under this agreement. An official translation has yet to appear. Finally, Part IV contains a most useful series of precedents for use in relation to patent actions and grants of licences.

The exposition deals somewhat briefly with tax repercussions, which is obviously a specialist matter. On the other hand, tax textbooks dealing with tax repercussions of patent matters naturally leave out a good deal of information about patent law which accountants would find useful.

Teach Yourself Exporting

by D. F. TAYLOR and E. A. RUTLAND. (The English Universities Press Ltd, London. 7s 6d.)

This excellent introduction to a quite complex subject, written by two members of the Institute of Export, deserves a wide readership. It stresses the need for basic research in prospective overseas markets as well as explaining the requirements of shippers, insurers and Customs authorities. There is a useful exposition of the work of the E.C.G.D., as well as chapters on air freighting and entrepôt trade. Even without the appendices on export terms and phraseology, sources of information and further reading, this book is good value for the student and business man.

SHORTER NOTICES

MONETARY DECISIONS OF THE SUPREME COURT. Gerald T. Dunne. Rutgers University Press, N.J. Distributed by Mark Paterson & Co Ltd, 34 Beech St, London, EC1. 35s net. This is the first of a series of works on aspects of the American banking system to be prepared by members of the Graduate School of Banking at Rutgers University. It deals with a series of Supreme Court decisions which have vested the federal authorities with complete control of the monetary system and will be of especial interest to those familiar with monetary and banking history.

GRAPHICAL ECONOMICS, by J. K. Eastham (English Universities Press Ltd, London. 25s net) is intended to explain to the business man the nature of economic theory and its relevance to the real world. The author relies heavily upon diagrammatic analysis and it is doubtful if the average business reader will find it to his taste, although the book would undoubtedly serve the student as an excellent introduction to modern economic analysis.

'TAXATION' KEY TO INCOME TAX AND SURTAX, Fifty-first edition (1961 Budget), edited by Percy F. Hughes. Taxation Publishing Co Ltd, London. 12s 6d net; 13s including postage. Once again this well-known

'Key' to income tax is very quickly off the mark. We turned to the surtax provisions and found the new reliefs duly dealt with. The same applies to the deductions for national insurance contributions, frustration of double tax relief, and restriction of capital allowances on cars.

RECENT PUBLICATIONS

COMPANIES—LAW AND PRACTICE, Supplement to third edition, by S. W. Magnus, B.A., and Maurice Estrin, F.C.A. x+84 pp. Card covers. 10×6. 10s 6d plus 6d postage (supplement only). 67s 6d plus 2s postage (combined price). Butterworth & Co (Publishers) Ltd, London.

GUIDE TO COMPANY BALANCE SHEETS AND PROFIT AND LOSS ACCOUNTS. Fifth edition, by Frank H. Jones, F.A.C.C.A., A.C.I.S. xix+582 pp. 9×6½. 55s net. W. Heffer & Sons Ltd, Cambridge.

THE BRITISH JOURNAL PHOTOGRAPHIC ALMANAC 1961, edited by Arthur J. Dalladay, A.INST.P., F.I.B.P., F.R.P.S. 596 pp. 7½×5. 8s net (board covers); 10s net (cloth

bound). Henry Greenwood & Co Ltd, 24 Wellington Street, London, WC2.

DIRECTORY OF OPPORTUNITIES FOR QUALIFIED MEN 1961, with a Preface by Sir Cecil Dannatt, O.B.E., M.C., D.S.C., Editor: Clive Labovitch, M.A. 155 pp. 9×5½. 8s 6d net, Cormmarket Press Ltd, 1 Lower James Street, London, W1.

MACHINERY MARKET TRADES INDEX, 1961 edition. A comprehensive guide to plant and equipment of British and foreign origin. vii+896 pp. 9×6. 17s 6d. Machinery Market Ltd, 146A Queen Victoria Street, London, EC4.

SPICER & PEGLER'S PRACTICAL BOOK-KEEPING AND COMMERCIAL KNOWLEDGE. Eleventh edition, by W. W. Bigg, F.C.A., H. A. R. J. Wilson, F.C.A., and A. E. Langton, LL.B. (LOND.), F.C.A. xv+475 pp. 9×5½. 21s net. H.F.L. (Publishers) Ltd, London.

SAMPLING TABLES FOR ESTIMATING ERROR RATES OR OTHER PROPORTIONS, by R. Gene Brown, M.B.A., C.P.A., and Lawrence L. Vance, PH.D., C.P.A. 11½×9. vii+221 pp. (No price stated.) A Publication of the Public Accounting Research Project, Institute of Business and Economic Research, University of California, Berkeley.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Accountants' Fees

SIR, — We should like to express our complete agreement with Mr F. H. G. Tompkins' letter published in your issue of June 17th.

There is, at present, no effective guidance as to the scale of fees which should be charged. A prerequisite of any such scale, however, is that all practitioners co-operate in using it, since any attempt to charge reasonable fees results in the loss of clients to unqualified persons who are prepared to operate at lower scales with corresponding services.

It will be appreciated, therefore, that the general question of fees cannot be solved by the publication of an official scale, but by some form of co-ordination in one of its many forms.

There is no point in pretending that the problem of unqualified practitioners does not exist, and sooner or later this must be faced.

Yours faithfully,

J. E. L. GRIFFITH, F.C.A., A.C.I.S.

A. J. RAMAGE-GIBSON, A.A.C.C.A.

Bracknell, Berks.

Blind Accountants

SIR, — Jack's problem (June 17th issue) deserves the consideration of a committee of his professional body to propound a solution. Doubtless it could get information as to what solutions blind persons in other professions (e.g. solicitors) have at hand for their corresponding problems. In any case, his

decrease of earning power may be a proper reason for his professional body to grant him an annual gratuity.

Of course, he must try to be an optimist. His technical competence can be heightened by his wife or some other person, preferably an accountant, reading to him regularly those sections of the profession's Press and the various Acts, and by his attendance at technical meetings of members.

To apply his knowledge depends on him getting into a sympathetic firm of practising accountants either as a partner or as a member of the staff. The practice should be one where there are enough client problems that a blind person could play an important part in gathering the facts mentally and in advising the clients or partners, besides dictating matter relative to his work. Incidentally, dictating the answers to Inspector of Taxes letters might be possible, especially when the blind person is co-operating in a team of two or three persons with eyes, yet not as competent technically as he.

Yours faithfully,

London, WC2.

R. SPROULL, SNR., C.A.

Goodwill: Coal Merchants

SIR, — In reply to your correspondent inquiring about the goodwill of a coal merchant's business (June 3rd issue), during the period of coal rationing when customers were tied to merchants a common valuation was £1 per registration. Before the end of rationing, when it was obviously only a question of time before coal was freed, this valuation dropped to about 10s. There would, of course, be variations dependent on the neighbourhood, class of customer, etc.

I do not think there is nowadays any figure per customer. Valuations are done in the coal trade just the same as in any other according to profits etc.

Yours truly,

London, EC2.

W. F. WHELAN.

ELEVENTH NATIONAL TAXATION CONFERENCE

BOURNEMOUTH, OCTOBER 20th to 23rd, 1961

The eleventh national conference to be organized by our contemporary *Taxation*, will be held in Bournemouth from Friday, October 20th, to Monday, October 23rd, when distinguished speakers will give addresses on the various phases of the law and practice of taxation.

The conference will be under the chairmanship of Mr Percy F. Hughes, Editor of *Taxation*, and is open to members of the accountancy and legal professions in practice, and to those in industry and commerce.

The provisional programme outlined below gives details of the business sessions, together with the varied social events which have been planned with a view to providing a week-end both enlightening and entertaining. Special attractions have been arranged for the ladies.

PROVISIONAL PROGRAMME

All business sessions will be held in the Town Hall.

Friday afternoon, October 20th.

Short inaugural address by the Conference Chairman, Mr Percy F. Hughes, followed by a civic welcome by the Mayor of Bournemouth, Councillor Deric S. Scott. It is hoped that lady visitors will attend these events.

Address by Mr Edward F. George, LL.B., on 'Property transactions'.

Chairman: Mr W. S. Risk, B.COM., C.A., F.C.W.A., Immediate Past President, The Institute of Cost and Works Accountants.

Friday evening

A reception and cocktail party will be given by the Editor of *Taxation* in The Pavilion Ballroom, to which all members and their ladies will be invited.

Saturday morning, October 21st

Mock appeal meeting: The Commissioners will hear three appeals of a wide and general interest, details of which will be announced later.

Commissioners: Mr T. A. Hamilton Baynes, M.A., F.C.A. (Chairman); Mr J. R. W. Alexander, C.B.E., M.A., LL.B., F.C.I.S., and Mr V. R. Chennell, F.A.C.C.A.

Clerk to the Commissioners: Mr W. Marr.

Counsel for the Appellant: Mr A. L. Philip.

Inspector: Mr H. F. Hodgkinson.

Accountants: Mr J. M. Cooper, A.A.C.C.A., A.C.I.S., Mr R. J. Pickerill, F.C.A., and Mr K. R. Tingley, A.A.C.C.A.

For the ladies: By courtesy of Madame Helena Rubinstein her personal representative, Dawn Cowan, will give a talk on skin care and a demonstration of make-up. She will be available after the demonstration to answer questions or give personal consultations.

Saturday afternoon

Address by Mr Julian S. Hodge, F.A.C.C.A., on 'The

effect of taxation on industry - with particular reference to hire-purchase companies'.

Chairman: Mr John Eden, M.P.

Address by Mr A. G. Davies, on 'Thoughts on our present discontents'.

Chairman: Mr A. S. Watson, F.C.A.

Saturday evening

Civic reception and dance to be given by the Mayor and Mayoress of Bournemouth, Councillor and Mrs Deric S. Scott, in The Pavilion Ballroom. Invitations will be extended to all those attending the conference.

Sunday morning, October 22nd

Morning Service for conference members and their ladies at St Peter's Parish Church, conducted by the Rev W. H. Fox Robinson.

An eighteen-hole Stableford golf competition for the *Taxation* Challenge Cup will be held on the course of the New Northbourne Golf Club, Bournemouth.

Monday morning, October 23rd

Address by Mr Geoffrey H. Vieler, F.C.A., on 'Valuation of stock and work in progress'.

Chairman: Mr G. E. Cameron, F.C.A., Immediate Past President, The Institute of Chartered Accountants in Ireland.

Address by Mr Douglas S. Morpeth, B.COM., A.C.A., on 'Taxation and the professional man'.

Chairman: Mr Alexander McKellar, C.A., Immediate Past President, The Institute of Chartered Accountants of Scotland.

For the ladies: A most interesting event is being arranged, details of which will be announced later.

Travel Arrangements

The conference headquarters and information office will be at *The Royal Bath Hotel*. Special facilities will be granted to all members of the conference by the Corporation of Bournemouth.

Travel arrangements are being undertaken by Messrs Dean & Dawson, and detailed particulars of rail services from London can be sent on application. For the assistance of the organizers, it would be helpful if those who wish to take advantage of these arrangements would notify the conference secretary as soon as possible.

Registration

Readers wishing to attend the conference are asked to make early application for registration as numbers have to be restricted. There is a conference fee of £2 2s for each person attending, but no further charges are made by the organizers, all social functions being free. (Those who attend will, of course, be responsible for their hotel accommodation and travel.)

Registration forms and lists of hotels may be obtained from The Conference Secretary, 98 Park Street, London, W1.

SCOTTISH INSTITUTE'S SUMMER SCHOOL

Successful Occasion at St Andrews

The ninth summer school of The Institute of Chartered Accountants of Scotland held at the University of St Andrews from Friday, June 23rd, to Wednesday, June 28th, was attended by ninety-five members, including eight lady members.

At dinner on Friday, members were welcomed by Professor J. N. Wright, M.A., Master of St Salvator's College, and Professor of Logic and Metaphysics in the University, and by the President of the Institute, Mr Graham A. Usher, M.B.E., T.D., C.A.

Problems of the Profession in the U.S.A.

After dinner, the first address, entitled 'Current problems of the accounting profession in the United States of America', was given by Mr John L. Carey, Executive Director, the American Institute of Certified Public Accountants. In the course of his address, Mr Carey explained that the main difficulty which his Institute

encountered was the lack of uniformity among the various States. In recent years the position had been eased by the adoption by each State of the Institute's common examination and in the case of all except two of the States the acceptance of the grading of marks by the Institute. So far as practice was concerned, the Securities and Exchange Commission had power to issue rules but in practice had hitherto relied on the American Institute to promulgate pronouncements which the S.E.C. enforced. In view of the increasing pressure to minimize tax liabilities there is some feeling in the U.S.A. that the responsibility of C.P.A.s in signing tax returns should be made more clear than at present. Good qualified personnel are very scarce—a factor which has led to very high salaries—up to \$6,000 per annum—being offered to university graduates who have no practical experience.

Mr Carey's address led to a lengthy and interesting question-and-answer session.



From left to right, front row: Messrs John L. Carey, Executive Director of the American Institute of Certified Public Accountants, *Speaker*; James C. Stewart, C.A., *Vice-President of the Institute*; H. C. Treffers, President of the Netherlands Instituut van Accountants; Graham A. Usher, M.B.E., T.D., C.A., *President of the Institute*; Alexander McKellar, C.A., *Immediate Past President of the Institute*; G. D. H. Dewar, C.A., *Convener of Summer School Committee*; **Middle row:** Messrs James Duncan, C.A., *member of Summer School Committee*; H. Forbes Murphy, C.A., *member of Summer School Committee*; Professor Robert Browning, C.B.E., M.A., LL.B., C.A., *member of Summer School Committee*; Messrs A. D. Paton, C.A., *Speaker and member of Summer School Committee*; Alex. I. G. Farquharson, C.A., A.C.W.A., *Speaker*; **Back row:** Messrs E. H. V. McDougall, *Secretary of the Institute*; T. W. Macdonald, C.A., *Speaker*; H. McMichael, C.A., *member of Summer School Committee*; T. N. Ritchie, C.A., *member of Summer School Committee*.

Internal Control of Trading Concerns

On Saturday morning, Mr A. D. Paton, C.A., a partner in the firm of Reid & Mair, Chartered Accountants, Glasgow, introduced his paper on 'Evaluation of internal control of trading concerns - the use of questionnaires'. Incorporated in his paper was a *pro forma* questionnaire which had been prepared as a result of informal meetings held by a group of practising members in Glasgow. Generally speaking the use of questionnaires met with approval, but it was preferred that these should be completed by the auditor himself and not merely submitted to his client for completion. It was thought that they could be completed at quiet periods such as interim audits or even special visits. A standard form of questionnaire prepared by each intending user was preferred - any adaptation for special purposes would be a relatively easy matter.

On Saturday a golf competition was held. Play was over the New Course against Bogey and the leading scores returned were:

J. Robertson	(16)	..	..	1 down
James Duncan	(16)	..	..	4 down
Robert Browning	(18)	..	..	5 down
H. McMichael	(10)	..	..	5 down.

Scoring was generally poor as a result of an exceptionally high wind.

On Sunday morning members worshipped in the Collegiate Church of St Salvator, where a special service was conducted by the Rev. Charles Armour, M.A., Minister of the Second Charge of the Parish Church of the Holy Trinity, St Andrews. The lessons were read by the President and the Vice-President, Mr James C. Stewart, C.A.

The Accountant's Contribution to the Export Drive

On Sunday evening members were addressed by Mr P. T. Menzies, M.A.(HONS.), Finance Director of Imperial Chemical Industries Ltd, on 'The contribution of the accountant to the export drive'. This important subject was of particular interest to members in view of the possible entry of the United Kingdom

into the European Common Market. Mr Menzies explained the various ways by which exports could be increased. Difficulties such as manufacturing abroad, establishing overseas selling agencies, the granting of long-term credit and keeping delivery promises were discussed.

On Monday, a paper entitled 'The accounting organization in an industrial concern' was given by Mr Alex. I. G. Farquharson, C.A., A.C.W.A., Chief Accountant of Storey Bros. & Co, Ltd; while on Tuesday, Mr T. W. Macdonald, C.A., a partner in the firm of Brown, Fleming & Murray, London, addressed members on 'Some current taxation problems'. In particular, Mr Macdonald dealt with the treatment for income tax purposes of payments made at the termination of employments.

Course Dinner

The official proceedings terminated on Tuesday evening with a dinner at which the toast of the University was proposed by the Vice-President. Professor A. A. Matheson, Q.C., M.A., LL.B., Master of Queen's College, Dundee, and Professor of Scots Law in the University of St Andrews, replied on behalf of the University. The toast of the Institute was proposed by Mr H. C. Treffers, President of the Netherlands Instituut van Accountants, who had been a popular guest throughout the duration of the Summer School, and the reply was made by the President.

After dinner there was an informal gathering at which the various discussion groups 'performed'.

St Andrews again proved the ideal spot for the Scottish Institute's Summer School; the accommodation provided by the University and the excellent sporting facilities would be hard to match. The hard work of the organizing committee under the convener-ship of Mr G. D. H. Dewar, C.A., and of the speakers, discussion group leaders and the secretariat ensured yet another highly successful Summer School.

Arrangements have been made for the Tenth Summer School to be held at St Andrews from Friday, August 31st, to Wednesday, September 5th, 1962.

Notes and Notices

THE ACCOUNTANT**Index to Vol. CXLIV: January - June 1961**

The general index to Vol. CXLIV - January to June 1961 - is published with the present issue. The parts of this volume, with the index, can now be sent for binding.

PROFESSIONAL NOTICES

MESSRS A. CHESTER & Co, Chartered Accountants, of 28 Spital Street, Dartford, Kent, announce that Mr W. H. B. CAREY, B.Sc., F.C.A., and Mr R. J. COOPER, A.C.A., joined the firm on July 1st, 1961, from which date the practice will be carried on under the same style at 12 Buckingham Street, Strand, London, WC2, and at 28 Spital Street, Dartford, Kent.

MESSRS DAFFERN & Co, Chartered Accountants, of 29 Warwick Road, Coventry, announce that as from July 1st, 1961, Mr REDVERS GERALD BINKS, A.C.A., and Mr

BARRY GILLITT, M.A., A.C.A., have been admitted to the partnership which will be carried on under the same firm name as before.

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co, and MESSRS BLACKBURNS, ROBSON, COATES & Co announce that as from July 1st, 1961, the following arrangements have been made with a view ultimately to a complete merger of the two firms:

- (1) BLACKBURNS, ROBSON, COATES & Co of London, Bradford, Leeds and Manchester are admitting Mr D. R. FENDICK, F.C.A., and Mr D. D. RAE SMITH, M.C., B.A., F.C.A., as partners. Mr D. D. RAE SMITH will continue to be a partner in DELOITTE, PLENDER, GRIFFITHS & Co and Mr D. R. FENDICK, who has been for many years the resident partner in the Manchester firm of DELOITTE, PLENDER, GRIFFITHS & Co, is being admitted to their London partnership. Mr

FENDICK will continue to be a partner in their Manchester firm.

- (2) DELOITTE, PLENDER, GRIFFITHS & Co, Manchester, are admitting Mr R. A. DOUGLAS, B.COM., F.C.A. as a partner. Mr DOUGLAS has been for many years, and will continue to be a partner in the firm of BLACKBURNS, ROBSON, COATES & Co.
- (3) The Manchester office of BLACKBURNS, ROBSON, COATES & Co has been moved to 76 Cross Street, Manchester, 2. The telephone number will continue to be Blackfriars 8873.
- (4) DELOITTE, PLENDER, GRIFFITHS & Co have formed an associated firm of the same name to practise from the existing offices of BLACKBURNS, ROBSON, COATES & Co at City Chambers, Infirmary Street, Leeds, 1 and Commerce House, Cheapside, Bradford, 1. The partners in the associated firm are Messrs R. T. M. MCPHAIL, M.B.E., C.A., C. ROMER-LEE, M.A., F.C.A., D. D. RAE SMITH, M.C., B.A., F.C.A., S. P. WILKINS, F.C.A. and J. N. PRENTICE, M.B.E., B.A., F.C.A., of the London firm of DELOITTE, PLENDER, GRIFFITHS & Co and Messrs E. SUGDEN, F.C.A., T. BEDFORD, F.C.A., T. H. BURDON, F.C.A., G. E. BAINBRIDGE, T.D., F.C.A., and P. D. SUGDEN, M.A., LL.B., A.C.A., who are partners of BLACKBURNS, ROBSON, COATES & Co resident in Leeds and Bradford. The latter firm continues to practise at the same addresses without any change in its constitution.

MESSRS HUGHES & ALLEN, Chartered Accountants, announce that as from June 24th, 1961, they have removed their offices from 15 Hanover Square, London, W1, to Kingsway House, 103 Kingsway, London, WC2.

MESSRS HUBERT LEICESTER & Co, Chartered Accountants, of 14 Pierpoint Street, Worcester, and Messrs F. G. JONES & SON, Chartered Accountants, of 5 Foregate Street, Worcester, announce that they have agreed to amalgamate their practices as from July 1st, 1961. The combined practice will be carried on in enlarged premises at 14 Pierpoint Street, Worcester, under the style of HUBERT LEICESTER & Co, by Messrs WILFRID L. SOLON, F.C.A., W. CHARLTON EDWARDS, F.C.A. and ALLAN F. JONES, F.C.A.

MESSRS D. J. NAPLEY & Co, Chartered Accountants, of 42 High Street, Croydon, Surrey, announce that as from July 1st, 1961, their practice will be amalgamated with that of Messrs D. E. ABBOTT & Co, Chartered Accountants, of 73 Croydon Road, Penge, London, SE20. The principals will be Mr D. J. NAPLEY, F.C.A., and Mr D. E. ABBOTT, A.C.A., and the partnership practice will be carried on under the style of ABBOTT,

NAPLEY & Co, at the above addresses and also 177 High Street, Penge, London, SE20, and 21 The Glade, Shirley, Surrey.

MESSRS PRICE WATERHOUSE & Co announce the retirement on June 30th, 1961, of Mr THOMAS HOWORTH, F.C.A., who has been a partner since 1932, and the admission to partnership in the London firm on July 1st, 1961, of the following members of their staff: Messrs A. M. INGLIS, C.A., D. O. BAILEY, F.C.A., L. W. SHAW, F.C.A., and A. WILSON, A.C.A. They also announce the formation of an associated firm carrying on practice under the same name from 7 South Parade, Leeds 1, the partners in that firm being the partners in the London firm and Mr J. O. HEWITT, F.C.A.

MESSRS G. W. ROBERTS & Co, Chartered Accountants, of 8 Moorgate Street, Rotherham, announce that Mr ERIC RAYMOND COOKE, F.C.A., has been admitted as a partner in the firm as from July 1st, 1961.

MESSRS THORNTON BAKER & Co, Chartered Accountants and Messrs EDMONDS & Co, Chartered Accountants, announce that they have arranged a merger of their interests with effect from July 1st, 1961.

MESSRS THOMSON McLINTOCK & Co, Chartered Accountants, of 216 West George Street, Glasgow, C2, announce that Mr J. HAIG HADDOW, C.A., who has been a partner in the firm since 1931, retired on June 30th, 1961, and that Mr J. D. TEBB, C.A., and Mr M. D. MCPHAIL, C.A., both of whom have been for some years senior members of the staff, have been assumed as partners in the firm as from July 1st, 1961.

MESSRS TRENT, RAYMOND & Co, Chartered Accountants, of Morris House, 1-5 Jermyn Street, London, SW1, announce that as from July 1st, 1961, they have taken into partnership Mr JACK GOLD, A.C.A., and Mr LEON P. MARCHANT, A.C.A., who have been closely associated with the firm. The style of the firm will remain unchanged.

Appointments

Mr M. G. Talbot Rice, M.A., F.C.A., has been elected chairman of London and Lennox Investment Trust Ltd, and a director of Van Diemen's Land Company.

Mr R. Grumble, M.B.E., F.C.A., has been appointed a director of Tilley Lamp Co Ltd.

Mr J. McKenzie, C.A. has been appointed financial director of Johnson & Johnson (Great Britain) Ltd.

Mr J. S. Hine, A.C.A., has been appointed chief accountant of Hoveringham Gravels Ltd.

Mr J. B. Parrett, A.A.C.C.A., has been appointed a director of Richard Costain Ltd.

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OBITUARY

John Russell Millican, F.C.A.

It is with much regret that we record the sudden death on June 21st, at the age of 60, of Mr John Russell Millican, F.C.A., Chairman of the Building Societies Association and general manager and secretary of the Cheltenham and Gloucester Building Society.

Mr Millican, who was educated at Samuel King's School, Alston, Cumberland, was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1925. He entered the building society movement in the following year as manager of the Hull Branch of the Halifax Building Society. He was appointed assistant secretary of the Cheltenham and Gloucester Building Society in 1933, and became secretary in 1945 and general manager in 1949.

Mr Millican joined the Council of the Building Societies Association in 1951, becoming Deputy Chairman in 1958. He was appointed Chairman in 1960 and only a fortnight ago was re-elected for a further period of office.

Noel Tynwald Summerscale, F.C.A.

We have learned with regret of the death in Paris on June 17th, of Mr Noel T. Summerscale, F.C.A., a senior partner in France of Messrs Deloitte, Plender, Griffiths & Co.

Mr Summerscale, who was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1927, was one of the leading members of the community of British accountants practising in France. He fully took his share in the consideration of the problems arising in connection with the practice in France of their profession by British chartered accountants and not only had he served on the committee of their informal association, but had taken his turn as its Chairman.

His wise advice will be missed by his colleagues as will be his ever cheerful presence. He never spared himself in the service of his profession, his firm and his friends. His untimely death is also a loss to the British Community in Paris in general, in whose activities he would undoubtedly have taken an increasingly leading part in years to come.

RETURN OF RATES

The sixteenth annual return of rates¹ for England and Wales to be published by The Institute of Municipal Treasurers and Accountants contains particulars of rates levied per head of population. The figures relate to all county and metropolitan boroughs and a representative selection of non-county boroughs, urban districts and rural districts.

The average rate levied for each class of authority

¹ *Return of Rates, 1961-62*. The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, SW1. Price 12s 6d post free.

during the current financial year again shows a rise over the preceding year. For county boroughs this year's total is 21s 9d or 10d more than in 1960-61. For metropolitan boroughs the rate is 1s higher at 18s 4d; for non-county boroughs 1s 1d higher at 22s 3d and urban and rural districts show rises of 11d and 1s 2d to 21s 11d and 19s 8d respectively.

INSTALLING A COMPUTER

A comprehensive booklet, the third in the series on electronic data processing under the title *The Planning and Installation of a Computer*, has recently been issued by The Association of Certified and Corporate Accountants.

Prepared by the Technical Research Committee of the Association, the booklet, which extends to twenty-one pages, includes chapters dealing with the selection of equipment, location and installation, programming and programme testing, and the selection and training of staff.

Copies of the booklet are obtainable from the Secretary of the Association, 22 Bedford Square, London, WC1, price 2s net (by post 2s 2d).

BUDGET POSTER FOR 1961

Facts about the United Kingdom's revenue and expenditure are shown graphically in the *Budget Poster for 1961*, published by the Treasury last week. The poster, the twelfth in the series, gives the main items of revenue and expenditure proposed in the 1961 Budget, both in money terms and as a share of each £1.

Of every £ of revenue that the Government expects to collect in the financial year, 1961-62, about one-third - or 6s 7d - will come from taxes on personal incomes (income tax and surtax). Tax payments by companies will provide 3s 5d, while death duties should yield 9d. Taxes on spending will provide 8s 6d in the £, the main items being tobacco (2s 7d), oil and motor duties (2s), purchase tax (1s 7d) and alcohol (1s 3d). On the expenditure side, defence remains the biggest individual item and will claim 5s 1d of every £. Assistance to local authorities for expenditure on such services as education, housing, police and roads will account for 3s; interest payments on the national debt will take 2s 2d; health services will claim 1s 11d - the same as personal payments (national insurance, war pensions, family allowances, etc.). Total expenditure is estimated to leave a surplus of 1s 7d in each £ of revenue, which will be allocated to 'below the line' spending on such things as loans to nationalized industries, repayment of post-war credits and loans to colonial territories.

A quarter of a million copies have been printed for distribution to offices, factories, schools, libraries and post offices etc. Copies of the poster are obtainable free of charge from Central Office of Information, Circulation Section (H), Hercules Road, Westminster Bridge Road, London, SE1.

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**THE ACCOUNTANTS' CHRISTIAN
FELLOWSHIP**

The monthly meeting for Bible reading and prayer will be held at 1 p.m. on Monday next in the vestry at St Mary Woolnoth Church, King William Street, London, EC3. The scripture for reading and thought will be Luke, Chapter 23, verse 34 (Christ's intercession for enemies).

**THE INSTITUTE OF INTERNAL AUDITORS'
LONDON CHAPTER**

At the annual general meeting of the London Chapter of The Institute of Internal Auditors held on June 14th, Mr Sydney Alfred Cropper, F.C.A., Chief Internal Auditor of Fisons Ltd, was elected President for 1961-62.

Other principal officers elected were *1st Vice-President*: Mr E. N. Judge, F.C.W.A., A.I.M.T.A., *2nd Vice-President*: Mr L. A. Hill, A.A.C.C.A., *Treasurer*: Mr V. H. Viney, A.A.C.C.A. The Secretary is Mr J. H. Protheroe, A.A.C.C.A., F.I.M.T.A., Chief Internal Auditor of British Oxygen Company Ltd, Bridgewater House, Cleveland Row, London, SW1.

Next Meeting

The next meeting of the Chapter will be held on Wednesday, July 5th, at 12.30 p.m. at *The Kingsley Hotel*, Bloomsbury Way, WC1. Mr R. Mayson Foster, Director of Internal Auditing, Gulf Oil Corporation of Pittsburgh, U.S.A., will address the Chapter on 'The auditor's approach to electronic data processing'.

**CHARTERED ACCOUNTANTS' GOLFING
SOCIETY**

The Summer Meeting of the Chartered Accountants' Golfing Society was held at Sandy Lodge Golf Club on June 9th. The leading scores were as follows:

STABLEFORD MEDAL

	Points
D. C. Urry (11)	37½
Wins first prize and First Lord Mayor's Cup.	
A. W. Coleman (13)	35½
Wins second prize.	
J. F. Sloan (16)	35
J. H. Bradfield (9)	34½
P. Knight (6)	34½
Wins scratch prize with 29 points.	
P. H. Martin (13)	31½
G. L. Foulds (6)	30½
W. L. Harris (24)	30

FOURSOMES

E. K. Govett (6) and R. D. Henderson (6) ..	34
Win first prize on last nine holes.	
N. W. Collett (14) and W. J. Leeming (13) ..	34
Win second prize.	
E. H. Head (10) and P. J. Hughes (1) ..	33
A. W. Coleman (13) and J. F. Sloan (16) ..	31

**LIVERPOOL SOCIETY OF CHARTERED
ACCOUNTANTS**

The annual golf competition of the Liverpool Society of Chartered Accountants was played over the links of The Royal Liverpool Golf Club on June 9th. There were fifty-one entries, the leading results – under the Stableford system of scoring – were as follows:

	Points
D. McLay (6)	35
J. F. Allen (11)	32
R. N. Roberts (12)	31
K. Adams (17)	31
R. N. Weston (23)	31
J. N. Perrins (18)	30
K. Duncan (20)	30
L. D. Hayward (10)	29
W. S. Wicks (11)	29
I. F. D. Hill (14)	29
F. Hiscocks (19)	29

ARTICLED CLERKS' SECTION

D. G. Williamson (5)	35
G. A. Maxwell (8)	32
J. A. Bush (20)	26
A. G. P. Lewis (18)	20

The President, Mr Philip C. Lloyd, F.C.A., and thirty-five members of the Society and articulated clerks dined in the club-house in the evening.

LAWN TENNIS

In a lawn tennis match played recently at Moor Park Golf Club, a Chartered Accountants' team lost to the Law Society by the narrow margin of five matches to four.

The results (Chartered Accountants' names first) were:

- P. J. Boobbyer and J. Dewhurst lost to M. Penty and R. Manning 7-9, 2-6; lost to J. Bull and I. Leckie, 6-2, 4-6, 2-6; lost to A. Shepley and G. Blacker, 4-6, 5-7.
- J. R. Paul and J. R. LeP. Power lost to Penty and Manning 3-6, 3-6; lost to Bull and Leckie, 4-6, 4-6; beat Shepley and Blacker, 6-1, 6-4.
- J. W. Margetts and J. M. Waddell beat Penty and Manning, 6-3, 7-5; beat Bull and Leckie, 6-4, 6-4; beat Shepley and Blacker 6-4, 6-1.

AIDS TO EXPORT

A recent series of articles in the *Board of Trade Journal*, most of them by officials of trade and professional associations, intended to show the new or potential United Kingdom exporter the extent of the ancillary services available and how he could make the best use of them, have now been re-published in booklet form under the title *Aids to Export*.

Copies of the booklet are obtainable free of charge from any of the Board of Trade Regional Offices, or from Export Services Branch, Lacon House, Theobald's Road, London, WC1.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

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The Essence of Auditing

THE notion, foolish or otherwise, is fast being dispelled that an audit is a necessary evil, and that the auditor is one who descends on his client once, or perhaps twice, a year, disrupts the records and routine and then departs; the only memento of his visit — once order has been restored — being a rubber-stamp audit report on the balance sheet and the bill which he subsequently renders. Thanks to the realization by the profession of the change of emphasis in the purpose of auditing and the reciprocal recognition by managements of this trend, the auditor is now generally welcomed not because he checks the mathematical accuracy of his client's records but because he makes an intelligent appraisal of the state of his financial affairs.

MR A. D. PATON, C.A., usefully developed an aspect of this theme at the recent summer school of The Institute of Chartered Accountants of Scotland, at St Andrews, in a paper which we reproduce in this issue. He believes that the auditor must satisfy himself that his client's books are so designed as to produce the statistical material for the financial accounts. To what extent he has to check these basic records depends on the degree of efficiency of the internal control system in operation. The auditor, then, must make himself familiar with these domestic matters so that he may dovetail his external audit programme accordingly.

To his own observations, MR PATON appends a specimen internal control questionnaire to help the auditor in his assessment of his client's accounting system. It deals with personnel, cash, stock and wages and aspires to being a convenient medium for collecting data on taking up a new audit, an *aide-memoire* to general auditing requirements and, finally, a guide to junior clerks when apparently lost in a jungle of detailed checking. In this last connection it might be helpful, also, to refer the student reader to the article by MR KENNETH S. MOST, LL.B., A.C.A., on evaluating internal control, which appeared in our issue of November 29th, 1958.

In a speech during his term of office, the IMMEDIATE PAST-PRESIDENT of The Institute of Chartered Accountants in England and Wales suggested that it was up to the auditor to produce 'at least one good idea a year' for his clients. MR PATON's questionnaire certainly gives many leads which might profitably be followed, particularly by the small practitioner who stands to gain most from a steady improvement in the quality of his clients' records.

'Receipt' of Foreign Income

IN THE LIGHT OF RECENT CASE LAW

by T. J. SOPHIAN

THE hopes that had been raised as a result of the decisions of the lower Courts in *Thomson v. Moyse* were sadly dashed by the decision of the House of Lords.

What is somewhat surprising, however, is that while the lower Courts, with the exception of Lord Justice Pearce, favoured one view, the House of Lords unanimously favoured the opposite view of the Revenue. The effect of the decision makes it quite impossible to devise any means by which foreign income may escape the net of paragraphs (a) and (b) of Section 132 of the Income Tax Act, 1952, that is, as regards persons who are not domiciled in the United Kingdom, or who, being British subjects or citizens of Eire, are not ordinarily resident in the United Kingdom.

Income – Not Capital

It is, of course, the enjoyment in the United Kingdom of foreign *income* and not capital, against which Section 132 and Cases IV and V of Schedule D are aimed. Thus, if a person sold foreign property, which was truly in the nature of capital, and caused the proceeds to be transmitted to the United Kingdom, no tax liability would arise, since *capital* and not income would be transmitted. On the other hand, if foreign income was utilized in purchasing foreign property of any kind, which was later sold and the proceeds were transmitted to the United Kingdom, it would be foreign *income* which would be received and liability to tax, *ceteris paribus*, would arise.

In *Thomson v. Moyse* the taxpayer had a banking account into which his foreign income was paid, some of his income arising from foreign 'securities' and some from foreign 'possessions'; so that tax would have been exigible under Case IV and Case V, respectively, of Schedule D (see Section 132, Income Tax Act, 1952). The 'remittance' basis, however, would have applied as the taxpayer was domiciled in the U.S.A.

The taxpayer had dollars, or a dollar credit, in the U.S.A., and in order to enjoy it here, he drew

dollar cheques on his U.S.A. bank in favour of English banks to whom he then proceeded to sell the cheques in return for sterling, which was credited to him. Thus, the English banks did not act as collecting agents for him, in which case the taxpayer would not have been credited with sterling until the cheques had been presented to the U.S.A. banks, with the result that his dollar credit at those banks would have been reduced *before* he received his sterling credit in Britain.

The argument accepted in the Courts below was that this time factor made all the difference; since when the taxpayer received his sterling credit in the United Kingdom, his dollar credit in the U.S.A. still remained undiminished. Therefore his sterling credit could not have constituted a receipt of his American income which still remained intact at that point of time. This contention, however, was demolished by the House, who exposed the fallacy of failing to appreciate that the sale of the cheques operated as an assignment of the taxpayer's right to his dollars in the U.S.A. bank, which no longer remained at his disposal.

As the case of *Thomson v. Moyse* is of considerable importance a detailed examination of the various points that have been established may be profitable.

'Bringing In'

As far as receipt itself is concerned, the apparent distinction between Cases IV and V, that there must be in addition a 'bringing in' of the income to the United Kingdom under Case V, is not in reality a distinction at all.

'Bringing in' is no more than 'receipt', and even if one contends that it connotes something more than 'receipt', the words do not appear in Case IV; and as far as the four heads of Case V are concerned, the words govern merely the fourth head, which in substance does not go much beyond, if at all, any of the other three.

The material provisions are in paragraph (a) of Section 132 (3), which deals with Case IV, and paragraph (b) of that subsection which deals with

Case V. Paragraph (a) charges the tax under Case IV on 'the full amount of the . . . sums received in the United Kingdom'. Paragraph (b) charges the tax under Case V on 'the full amount of the actual' (note the addition of this word) 'sums received in the United Kingdom', but goes on to enumerate the four heads, from which the sums must be received.

In other words (b) particularizes the manner in which the receipt must take place. All it does is merely to enumerate all the possible ways in which foreign income may be 'received'. As Lord Radcliffe stated in his judgment:

'These four subheads . . . should be treated as illustrations, no doubt intended to form a comprehensive list of illustrations of the way in which foreign income is transmitted to this country.'

Receipt

For the purpose of Case IV, it clearly is not necessary to show that the actual 'property' representing the foreign income, i.e. the dollars held by the U.S.A. bank in this case, has been 'brought in' into the United Kingdom, in order that it should be 'received'. All that is essential is to show that the sums, such as the sterling in this case, which have been received, are directly referable to the foreign income, in the sense that they come out of it or are deductible from it, or traceable to it. The foreign income must, in the words of Lord Denning, be

'seen to be the provider of the sums received in England'.

That clearly happened in *Thomson v. Moyse*. The sterling was received by the taxpayer in the United Kingdom, the means employed for that purpose resulting in the depletion of the taxpayer's dollars or dollar credit in the U.S.A. As Lord Radcliffe very succinctly put it:

'He parted with his dollars; he got his sterling. He emptied one pocket of dollars in order to fill another pocket with sterling.'

It would appear, therefore, that 'receipt' and 'bringing in' of foreign income are virtually synonymous. Here again one may usefully quote Lord Radcliffe:

"Bringing in of income" means nothing more than the effecting of its transmission from one country to the other by whatever means the agencies of commerce or finance may make available for that purpose. If that transmission takes place, it is neither here nor there to ask whether

anything, items of property or instrument of transfer, has actually been brought into the country or not. No more is it relevant to know what has happened to the taxpayer's money in the country where the income arises.'

Thus, what the English banks did with the taxpayer's dollar cheques afterwards was irrelevant. They may have dealt with them in a number of ways: they may have cashed them in the U.S.A. and kept the dollars there, or resold them in England and received sterling in return. Both receipt and the bringing in of the income would have been an accomplished fact, when the dollar cheques were sold here for sterling.

Receipt by Third Person

By whom, then, was the foreign income received? In this connection it is to be noted that a 'receipt' may be constituted, not only where the owner of the foreign income himself receives it, but also where a third person receives it by authority of the owner of that income.

The point made by Lord Denning in this connection should not be overlooked. The sterling credit was no different from any other article of property bought in this country. A taxpayer would be liable, if, for instance, he bought a piece of jewellery in Britain and gave a cheque drawn on his dollar account, which represented foreign income, with a U.S.A. bank, or otherwise authorized his U.S.A. bank to pay the seller out of such account; there would still be a receipt of the foreign income, although the sums would be received here by a third person by the taxpayer's authority. Nor would the manner in which it was remitted to the third person make any difference. It might be in coins or dollar notes or sterling notes, or any of the other forms of money which are commercially recognized, such as bills, promissory notes, cheques and the like.

Where 'money' was received in this way out of the taxpayer's foreign income, with his authority, it would actually be received by the third party; that nevertheless would make no difference to the taxpayer's tax liability, for there would be a receipt of such income sufficient for the purposes of Section 132 (3) to constitute liability on the taxpayer's part. Even if the taxpayer made a gift of the 'money' to a third person here, without himself receiving any consideration, a sufficient receipt would still be constituted.

In Lord Denning's view, the dollar cheques themselves handed to the purchasing banks could rightly be regarded as the 'sums received' out of

the taxpayer's foreign income. The place where the cheque was drawn, or from where it was sent, was immaterial; the material factor was the place where it was received. The taxpayer, it was conceded, would have been taxable if he had drawn the cheques in the U.S.A., brought them here himself and handed them to the purchaser; for the purchasing bank would have received the cheques with the taxpayer's authority. It made no difference that the cheques were both drawn and handed over in England.

Case V Receipts

There remained the question as to whether, for the purpose of Case V, it could be said that sums had been received out of the foreign income in the United Kingdom in any one of the four forms expressly specified in paragraph (b) of Section 132 (3). Under this paragraph the receipt of the sums in the United Kingdom must be from:

- (1) remittances payable in the United Kingdom; or
- (2) property imported; or
- (3) money or value arising from property not imported; or
- (4) money or value so received on credit or on account in respect of any of the foregoing heads.

The fourth head, however, is qualified by the words 'brought in or to be brought in to the United Kingdom'.

The contention of the taxpayer in *Thomson v. Moyse* was that this qualification as to 'bringing in' was also to be read into the third head. If, it was said, the case fell within the third head, and it obviously did, the 'money or value' had to be brought into the United Kingdom in order that liability should arise. The dollars or the dollar credit undoubtedly constituted property not imported, while the sterling credit obtained on sale of the dollar cheques represented the 'money or value' arising therefrom. In the Courts below, the decisions of some of the judges (Wynn-Parry, J., and Romer and Jenkins, L.JJ.) had, in fact, been based on the ground that the dollars representing the foreign income had not been brought into the United Kingdom. The answers given to this contention in the House of Lords were firstly, that the construction of paragraph (b) did not permit of any such limitation as to 'bringing in' being read into it, notwithstanding the anomaly that would otherwise arise from the qualification in the omnibus provisions of the fourth head; and secondly, that 'bringing in' was misconstrued if it was to be regarded as involving

something different from what in effect was a 'receipt' in the sense indicated above. Such a misconstruction, in the words of Lord Radcliffe,

'seemed only to obscure the significance of the true statutory test, viz. whether income arising abroad has or has not been received as sums of money in the United Kingdom'.

Putting the matter in another way: while the 'money or value' in the third head must be received here, it need not be imported. The taxpayer's argument that it made all the difference that the dollar cheques had been drawn and handed over in England and had not been drawn in New York and then brought here, crashed on this rock.

Origin of Case V Heads

The origin of the first three heads in Case V goes back to 1803, the fourth head having been added in 1805. The object of these provisions was to rope in the profits made from the sugar plantations in the West Indies, in so far as they were enjoyed in the United Kingdom. The first head, 'remittances payable in the United Kingdom', covered the case where sugar was sold abroad and the proceeds of sale were remitted in one form or another to the United Kingdom; the second head, 'property imported', covered the case where the sugar itself was brought into and sold in the United Kingdom, the price being received here; the third head dealt with sales here of sugar which was lying abroad for delivery abroad, in which event 'property' was not imported, but the price was received here. The fourth head, an omnibus provision, was intended to rope in any other type of transaction aimed at taking the case out of the three foregoing heads.

The most obvious head to cover the transaction in *Thomson v. Moyse* is the third, as all the noble lords agreed, though there are certain differences in some of their views. It may be useful in conclusion, therefore, to note the respective decisions given by the judges in the House of Lords.

Lord Reid held that the price received here by the taxpayer for the cheques was the 'money arising', the non-imported property from which it arose being the taxpayer's right to his dollar credit in the U.S.A. bank, which right he had assigned by drawing the cheques in question.

Lord Cohen agreed in substance with this view. The dollar credit with the U.S.A. bank was the 'property not imported', the sterling credit obtained here being the 'money or value' arising from that 'property'.

Lord Denning held that the dollar cheques were the sums received here and that they were received by the bank by authority of the taxpayer. He preferred this view; alternatively it was the sterling credit that was received by the taxpayer. On either view whatever was received – dollars, cheques, or sterling credit – it was received out of the foreign income represented by the dollars or dollar credit of the taxpayer which accordingly was depleted.

Lord Radcliffe, while agreeing that the case fell within the third head, appears to have also taken the view that the sums, i.e. the sterling credit, were received here from 'remittances payable in the United Kingdom' (the first head). In his view, the expression 'remittances' would apply to the instrument employed to effect the transfer, to the credit arising from the transfer (i.e. the sterling credit), and also to the whole operation of transmitting money to be paid here.

THE ACCOUNTING WORLD

Company Law in India

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THE fact that the Jenkins Committee is considering possible amendments to company law in the United Kingdom lends interest to the report of a select committee of forty-five members from both Indian Houses of Parliament and to the Indian Companies (Amendment) Bill, 1959, which is the result of their work.

Naturally, not all the problems dealt with are of great interest because they arise out of peculiarly Indian conditions; for example, the managing agency system is frequently mentioned and some special provisions relate to branch offices. Nevertheless, there are a number of provisions which are likely to be of considerable interest to accountants and company secretaries in Britain and elsewhere.

The main statute in Indian company law is the Companies Act of 1956, which came into force on April 1st of that year, and the main purpose of the current revisions is to produce such amendments as may be necessary to overcome practical difficulties in the working of the Act; to remove drafting defects and to simplify the form or structure of the Act. Many of the amendments proposed in the current Bill, however, are far-reaching in their implications and some critics consider that they represent a fundamental change. Whilst this may be hard to accept in respect of any single amendment, it does seem that the existing Act and the new provisions taken together create a much closer control of companies by the Government than is encountered in Britain.

Of course, the proposed reforms have been in preparation for some time and may have been influenced by the fact that whereas from 1954-56

the general index of industrial production rose at the rate of 7 to 8 per cent per year, the rate fell to 3.5 per cent in 1957 and to 1.7 per cent in 1958. However, this unfavourable tendency was decisively reversed in 1959 when the increase was 8.2 per cent and the Indian economy is running at such a rate now that the Third Economic Five Year Plan which calls for a rise of Rs10,000 crores¹ in the level of investment and a rise of 5 per cent in the national income – targets which would have seemed fantastic ten years ago – now seem quite attainable. It is all the more strange, then, that the Indian Government should propose to amend company law in a way which might encourage more interference with the day-to-day conduct of company businesses.

Special Government Audit of Company Accounts

Under the existing Act the Government has power to investigate the affairs of a company and may even appoint directors on to the board. Minority shareholders may apply to the Court for relief if they are oppressed and they may also apply to the Government to prevent a change in the board of directors if they consider this may be prejudicial to the company's interests.

Although there seems to be no evidence available to the public to indicate that these powers are insufficient, the new Bill proposes to give the Government power to order a special audit of company accounts. They may do this if they consider:

¹ 1 crore = 10 millions; 1 Rupee (Rs) = 1s 6d.

- (a) that the affairs of the company are not being managed in accordance with sound business principles or prudent commercial practices; or
- (b) that any company is being managed in a manner likely to cause serious injury or damage to the interests of the trade, industry or business to which it pertains; or
- (c) that the financial position of any company is such as to endanger its solvency.

If the Government does not take action on the report within four months, it must either send a copy of the report or relevant extract from it, with comments and require the company to circulate it to the members or have it read out at the next general meeting.

This represents a great change from the normal assumption of private enterprise that if the management of a company is incompetent, it is the responsibility of the shareholders and directors to put it right. If they fail to do so, then one would expect them to fail to make profits and ultimately, lose their capital.

Perhaps the Government sees this power as a means of implementing its economic plan and there is no doubt of the urgency of the problems posed by India's expanding population. It is hard to see, however, how such a power could be effective except in a few extreme cases.

Contributions to Political Parties

Another controversial feature of the Bill is a proposal to permit companies to pay contributions to political funds, and as many as seven members of the select committee dissented from this proposal.

About four years ago, certain large companies applied to the High Courts in Bombay and Calcutta for permission to alter their memoranda of association to allow them to contribute funds to political parties and although the High Courts considered the practice fraught with danger in an immature democracy, they regretfully granted permission. The 1956 Act prohibits such contributions, but the proposed amendments will permit them, provided the amount is shown in the company profit and loss account, and the name or names of the person, party or political association to whom the contributions have been given are stated. The select committee argues that this will, at least, make such contributions publicly known.

A surprising feature of the amendment is the ceiling placed on contributions which is Rs25,000 or 5 per cent of the net profits, whichever is

higher. This might allow big companies to put large amounts of money to this purpose.

There are, of course, a number of objections to a company making contributions to political funds. Perhaps the most important is the public interest; an objection which the *Eastern Economist* puts this way:

'it boils down to the unanswerable contention that contributions by companies usually aim at securing favour at the hands of the party in power and, in consequence, political corruption is fostered'.

The High Court judgment referred to above put it even more strongly:

'to convert convictions and conscience by money is to pervert both democracy and administration'.

From the shareholders' point of view, it is unlikely to please them all, for they are unlikely to be of one political frame of mind. It may also be argued that such payments are not in the normal course of business and the directors should not have the power to make contributions unless authorized to do so by the company in general meeting.

A member of the committee suggested that shareholders should, at least, have the right to record a dissenting voice, even if they were unable to prevent the contributions being made.

Another suggestion was made that shareholders should have the right to 'opt out' of such payments in the same way that a trade unionist, in England, may opt out of paying a political levy. In this case, the directors would be able to make a contribution only for those shares whose holders raised no objection and presumably such shares would receive correspondingly reduced dividends. The Bill clearly envisages that no such restrictions shall be put on the directors, and it appears that shareholders will have no say whether such payments are to be made.

The proposals that the Indian Government should have power to order a special audit and the right of the companies to make donations to political parties are, perhaps, the two changes which are likely to arouse most general interest. The changes dealt with below are perhaps of less moment, but are interesting, all the same, for the accountant or company secretary elsewhere.

Voting Rights on Shares

The new Bill gives the central Government the right to restrict voting rights on shares if as a result of the transfer of such shares in a company a change takes place in the composition of the

board or constitution of the managing agency which the Government considers to be prejudicial to public interest, and they may prohibit the transfer for up to three years.

Again, it may be noted that members of the company may already apply for the support of the Court if any material change in the management of the firm takes place which they consider prejudicial to the best interests of the company and the Court may make such orders as it thinks fit.

Here, again, we find the Government taking powers to deal with matters which in United Kingdom company law would be regarded as the sole concern of the shareholders.

Remuneration of Directors

The same sort of thing is found in the control of directors' remuneration in the form of a number of limits incorporated in the Act, but it will doubtless be pleasing for directors to know that the Government proposes to take powers to relax these limits.

The 1956 Act restricts the remuneration of the directors, managing agents, or secretaries, treasurers and managers to a maximum of 11 per cent of the net profits of the company (before the deduction of such remuneration).

Within this overall limit, a director may be paid by monthly payment or by a fee for each meeting attended. A managing director or a director employed whole-time by the company may also be paid a specified percentage of the profits up to a maximum of 5 per cent for any one director and 10 per cent for them all together. Part-time directors may be paid up to 1 per cent of the net profits if the company has managing or whole-time directors etc. or up to 3 per cent if it has no such full-time directors.

Whilst the overall limit of 11 per cent is unchanged, it is proposed that the central Government be given power to approve relaxation of the other percentage limits in suitable cases.

It is interesting to note that a director receiving commission from a parent company is not allowed to receive any other remuneration from a subsidiary so that it would be difficult for a director to evade the limits set by the Act.

There are also a number of provisions in the Act which give considerable power to the central Government over the appointment and remuneration of the directors and management. Any new management appointed by a company must be approved by the Government. Such provisions

may be intended to give the Government powers to protect Indian companies against British and American capital and, consequently, may be justified on national grounds.

Published Accounts of Companies

The 1956 Act requires both public and private companies to file balance sheets with the Registrar of Companies, but only public companies are required to submit profit and loss accounts. In future, it is proposed that private companies should be required to submit copies of their profit and loss accounts also, but these would be filed separately from the balance sheet which the Registrar may have to show to members of the general public. Only members would be entitled to inspect a copy of the profit and loss account.

The information required to be disclosed in the profit and loss account is already much more comprehensive than in Britain. Among the items which must be shown are:

- (i) Turnover or gross income.
- (ii) Selling agents' commission, brokerage and discount on sales, other than usual trade discount.
- (iii) Opening and closing stocks and purchases of
 - (a) raw materials in the case of manufacturing concerns;
 - (b) all goods in the case of trading concerns.
- (iv) In the case of firms having work in progress, the amounts for such work remaining to be executed at the commencement and end of the accounting period.
- (v) The expenditure incurred on the following, shown separately for each item:
 - (a) Consumption of stores and spare parts.
 - (b) Power and fuel.
 - (c) Rent.
 - (d) Repairs to buildings.
 - (e) Repairs to machinery.
 - (f) Salaries, wages and bonuses; contributions to provident and other funds; workmen and staff welfare expenses.
 - (g) Insurance.
 - (h) Rates and taxes, excluding taxes on income.
 - (i) Miscellaneous income.

Other items include income from investments and other sources, exceptional profits, etc.

On the whole, Indian companies must go to the limit in the information they publish, and it would be interesting to know what use is made of it. The select committee, nevertheless, appears not to be satisfied with the extent of the information already available and it proposes in the new Bill

that the public and shareholders shall be informed of the affairs of the company within six months of the end of the financial year, a requirement which many companies may find difficult to meet. Perhaps the intention is to compare the Indian company secretary with the American general who aimed always 'to get there fustest with the mostest'.

Provision for Depreciation

The Indian Companies Act of 1956 made quite specific rules about the charging of depreciation in company accounts and the select committee has considered a proposal that only one method of providing depreciation should be used, that is, to charge any allowance for depreciation made under the Income Tax Acts. It has decided that whilst companies may use this basis, if they wish, they should be allowed to continue to use certain other methods. However, it is proposed to place further restrictions on companies by requiring that companies must provide for all arrears of depreciation before they may pay dividends, unless they are given prior permission by the central Government.

The effect of this on a company which, perhaps, in the first four years has made losses and has not provided for depreciation may be quite onerous as all accrued depreciation must be written off before any dividends are paid. If the company starts to make profits in the fifth year, it will no longer be possible for it to meet current depreciation, plus a share of depreciation arrears and to pay a first dividend out of the balance of profits. All the profits would have to be applied to meeting the arrears of depreciation. As a result, a company which might be in a position to start paying modest dividends in its fifth year, might in fact not be able to do so until its tenth year. The resulting share valuation during the ten years might be quite unrealistic.

Types of Company and Rights of Shareholders

It is proposed that an Indian private company, the entire share capital of which is held by one or more bodies corporate incorporated outside India, shall no longer be regarded as a private company which is a subsidiary of a public company; obviously this provision concerns many British firms with interests in India.

The present Act provides that an Indian private company will normally become a public company if 25 per cent or more of the paid-up share capital is held by one or more bodies cor-

porate (that is, even if such bodies corporate are themselves private companies). This provision, however, will not apply in future if the corporate bodies holding shares are themselves private companies, if no corporate body holds any share in them and the aggregate number of members in all the companies does not exceed fifty.

New Issue Rights

An interesting provision of the 1956 Act is that any new issue of shares after the first allotment shall be offered *pro rata* to the existing holders of the company's equity capital. It is now proposed that power should be given to the company to offer the new shares to outsiders by special resolution or by ordinary resolution, if the central Government agrees, after the expiry of two years from the formation of the company or one year after the first allotment of shares.

From these brief observations it is clear that the Indian Government takes much more active interest in companies than its counterpart in Britain. One of the dissenting minutes in the report of the select committee does say

'I cannot find a parallel in the company law of any other country which requires the approval of government in respect of so many matters of internal day-to-day administration.'

The member carries his strictures a stage further and suggests that the restrictions imposed on the companies

'in actual practice would make difficult, if not impossible, the smooth and efficient management of business. The sum total of all the restrictive provisions creates an impracticable situation'.

On the other hand, this is a dissenting note and the majority of the select committee, presumably, feel that the amendments to the Act which they propose are fully justified by the situation in India. No doubt they are aware of the important influence which the activities of companies are likely to exert in the economic development of their country. Many people see India as a test for democracy. Will she manage to solve the problems of providing for her rapidly-increasing population whilst maintaining democratic institutions? If not, it is thought, India may turn towards the more totalitarian methods of her great neighbour. Perhaps the proposed new company legislation fits more neatly into the plans for India's future than is evident from afar.

In some respects, too, accountants elsewhere may see these very full requirements concerning the contents of published accounts as a model for the future. I wonder?

Evaluation of Internal Control of Trading Concerns – The Use of Questionnaires

by A. D. PATON, C.A.

The Purpose of an Audit

AS an apprentice, I recall, I received as the definition of the purpose of an audit 'the detection of fraud and error, and the prevention of both'. In recent years I think the emphasis has changed, and if one were to define the purpose of an audit today, one would be more inclined to give as a definition 'the examination necessary to enable the auditor to express an independent opinion on the affairs of the company as disclosed by the accounts prepared from the books and records of the company'. I appreciate that, in the case of a limited company, there are other statutory obligations laid on the auditor, but I would submit that the main purpose of the audit of a trading concern is to enable the auditor to state whether or not in his opinion the accounts prepared from the books and records show a true and fair view of the state of the company's affairs.

For an audit to be really effective, the auditor must be clear as to the purpose of his task. If we accept the opinion which I have expressed in the previous paragraph, extensive detailed vouching and checking of day-to-day entries should not normally be necessary. The work undertaken in the course of the audit should be that required to enable the auditor to be satisfied that the books and records can reasonably be relied upon to provide information which, when expressed in the form of accounts, will disclose a true and fair view of the company's profits and of the state of its affairs. The whole audit will be directed with this objective in mind and the detailed tests undertaken to establish the reliability of the records will be based on an assessment of the internal control of the business. Haphazard test checks of various types of transactions are not likely to result in an efficient audit. I suggest that the audit procedures to be followed can be determined satisfactorily only after the auditor has studied carefully and intelli-

gently not only the accounting system but also the whole internal control of the business and noted the stages at which control is effective and the points at which there are weaknesses. Any apparent weakness which shows up in a system of internal control must be considered in the light of the whole system. If, for example, in a cash store it is noted that the salesmen

have access to the cash takings, this weakness may be offset by the fact that the total sales can be verified from the stock control or other records. Similarly, if in a credit business accounts are collected by travellers, the apparent weakness of this procedure may be safeguarded against by a strict control of cash collections and the rendering of statements.



Mr A. D. Paton

Fraud and Error

To avoid misunderstanding between client and auditor it would be helpful if the main purpose of the audit were more clearly appreciated. While the position which I have suggested is doubtless accepted by the directors of the larger companies, I have a feeling that many directors of small businesses still regard the main purpose of an audit as the detection of fraud and error. If we accept the view which I have expressed, it follows that the

procedures which the auditor may adopt to enable him to express his opinions cannot be relied upon to discover defalcations and irregularities, although in many instances their detection will come to light in the course of the audit. It is, in my opinion, primarily the duty and responsibility of management to safeguard the company's assets, and if an auditor were to be responsible for the detection of all defalcations and irregularities he would have to extend his work to a point where the cost would become prohibitive. Protection against fraud and error can usually be achieved much more economically through good internal control and fidelity bonds. I do not, however, wish to give the impression that I regard the detection of fraud and error as unimportant. It is to my mind a question of judgment. If, for example, the internal control is

weak in the control of debtors and the auditor fails to take reasonable steps to verify the debtors he may do so at his peril. In contrast, if, in a business with a cash imprest system properly supervised and controlled, the auditor decides to check only a few selected weeks instead of the whole year and by so doing fails to detect an embezzlement which occurred in one of the weeks not checked it seems to me that liability would not necessarily fall on the auditor. Moreover, I would suggest that it should be made clear to a client that by making tests to assess the value of internal control the auditor is not assuming functions which properly belong to management. For example, if an auditor decides that it is desirable to attend at stocktaking he should make it clear that he is not taking on the role of stocktaker or even of supervisor. He is there to judge the efficiency with which the stock is being taken.

The Approach of the Accountant in Industry

In the *Statement on Auditing Procedure No. 30* issued in September 1960 by the Committee on Auditing Procedure of The American Institute of Certified Public Accountants, it is stated that

'management has the responsibility for the proper recording of transactions in books of account, for the safeguarding of assets, and for the substantial accuracy and adequacy of financial statements. The transactions which should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management; the independent auditor's knowledge is limited to that acquired through his examination. Accordingly, even though the financial statements may show the influence of the independent auditor (for example, as a result of management's acceptance of his advice), the statements are the representations of management. The independent auditor's responsibility is confined to the expression of a professional opinion on the financial statements he has examined.'

While some may take exception to part of this pronouncement it does support the view which I expressed in the previous paragraph that it is primarily the duty of management to safeguard the company's assets and, accordingly, design, install and supervise the accounting system. When an accountant takes up an appointment as financial controller, secretary or accountant in industry one of his first tasks, like that of a new auditor, must be to examine the accounting system in operation and consider the effectiveness of the internal control. Would the use of an internal control questionnaire be helpful on such an occasion?

The Approach of the Auditor

In taking up a new audit one wishes to get the feel of the business. This will be done by intelligent inquiry of the directors and other officials, by noting the physical conditions under which the business operates, by examining the accounting system in operation and noting in particular the control at vital stages. Internal control should not be something

which is installed to meet the whims of a fussy auditor, but should be the control considered desirable to protect the company's assets and to increase the efficiency of the company's accounting system. The effectiveness of the internal control is, as I have said, primarily the responsibility of management. In my view, however, management is entitled to expect an auditor to draw attention to any weaknesses which he may consider to exist in the controls. When an apparent weakness relates to a relatively unimportant matter, it can usually be rectified by a meeting between the executive responsible and the auditor, but when the weakness is fundamental the auditor should make his report on the defects in writing to the secretary or to the financial controller, and there may even be occasions where the report should be made to the board of directors. In the case of a small company, the auditor, in his capacity as accountant and general adviser, may render a very valuable service by introducing a system of internal control which, for a comparatively small cost, will contribute not a little to the efficiency of the management and the accounting system and, at the same time, greatly ease the task of the auditor. It should always be remembered that no amount of detailed auditing can be a substitute for adequate controls and that it behoves the auditor to suggest the introduction of controls wherever he thinks they are lacking.

Initially most of the information collected by the auditor to enable him to assess the effectiveness of the system of internal control and to prepare his permanent notes and determine his audit procedures will be obtained from discussions with executives of the company. This information must later be substantiated by actual tests wherever possible, to ensure that what is supposed to be done is actually being implemented, and the position must be reviewed regularly to ensure that the audit procedures being followed are varied with changing conditions.

At first sight, one might be inclined to suggest that time spent on the study and assessment of internal control each year is unnecessary and a waste of time. If at the first audit a full report on the system of internal control is prepared, it is sometimes claimed that it is unnecessary to review this annually, and that to do so is both uneconomical and a source of irritation to the client. Major changes in a system will become obvious to the auditor in the course of the audit procedures, but, in practice, major changes are the exception rather than the rule. One more frequently finds that changes take place in a gradual way. None the less, gradual changes over a relatively short period may completely alter the system of internal control and dictate extensive changes in the audit procedures.

The Problem for Discussion

It is suggested that the use of a standard internal control questionnaire can be of inestimable value to an auditor in ensuring that his assessment of the internal control of a business is kept constantly

1. Is opening of mail supervised by a responsible official other than the cashier or sales ledger clerk?
2. If not already so crossed are all cheques and postal orders immediately crossed restrictively to the client?
e.g. 'Account payee only'
'not negotiable - account payee only'
'account A.B. Ltd'
'account A.B. Ltd - Bank of Scotland'
3. Is a record prepared by the person opening the mail showing:
 - (a) cheques and postal orders received?
 - (b) cash received?
4. (a) Is the record signed by the supervising official?
(b) Is the record checked by someone other than the cashier, with

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the cash-book, or some other entry in the books?

5. Are all moneys received lodged intact in the bank?
6. Are lodgments made daily?
7. Are travellers prohibited from collecting accounts?
8. Are pre-numbered duplicate receipts in use?
9. Are receipts issued in all cases for:
 - (a) cash, postal orders and money orders?
 - (b) cheques?
10. Is a register of these receipt books kept?
11. Is the cashier prohibited from making entries in books of account other than the cash-book?
12. Are statements to customers rendered monthly without intervention by cash department?
13. Is money received from cash sales recorded daily in the cash-book?
14. Is the entry in the cash-book for cash sales supported by a clear record of the sales?
15. Is there an adequate system of control over:
 - (a) sales to employees?
 - (b) scrap, by-products, etc.?
 - (c) rents, dividends, etc.?

Are statements for any such amounts outstanding rendered without intervention by cash department?

CASH SALES

Sales Records

1. Are pre-numbered cash sale slip books in use?
2. Does the system provide for adequate control of the issue, exchange and return of cash sale slip books?
3. Is a copy of the cash sale slip given to:
 - (a) customer?
 - (b) cash desk?
4. Is the system such that the sales assistant who makes out the cash sale slip is precluded from taking the cash from the customer?
5. Does the control system provide for a check on:
 - (a) pricing of merchandise?
 - (b) prices on sale slips?
 - (c) calculations and additions of sale slips?

Sales Returns

6. Are sales assistants prohibited from

taking back goods returned by customers?

7. Is there a proper system of recording and controlling the return or exchange of goods?

Cash Collections

8. Is the cash under the control of a person other than the sales assistant?
9. Is there a central cash office, using the tube system?
10. If the answer to (9) is 'No' is there a central cash desk for all collections?
11. Does the customer deliver to cash desk:
 - (a) cash?
 - (b) cash sales slip?

Cash Records

12. Is a record made of cash received for each sale?
13. Are cash registers in use?
 - (a) Do they clearly show the customer the amount of the sale?
 - (b) Do they have locked-in totals which can only be cleared by a supervisor?
 - (c) Are the cash register records filed in support of the entry for cash sales each day?

Control of Cash

14. Is there a fixed cash float for each cash office or desk?
15. Are these cash floats counted periodically by a supervisor?
16. Are cash payments from the cash office or desks prohibited?
17. Are the cash offices or cash desks substantially cleared during business hours?
18. Are cash collections reconciled daily with:
 - (a) cash records?
 - (b) sales records?
19. Are the reconciliations made by a person other than office or desk cashiers?
20. Are cash collections banked intact at least once per day?
21. Does the system provide for checking that all sale slips issued have been accounted for?
22. Is a record kept of shorts/overs?
23. Does control system provide for investigation of shorts/overs?
24. Is cash received and not banked on the day of receipt?
 - (a) kept in a safe overnight?

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- (b) deposited in a night safe at a bank?
(c) covered by insurance?

Stock Control

25. Does the system of stock control enable one to verify the total value of the sales?

BANKING ARRANGEMENTS

1. Does a person other than the one who keeps the record of moneys received make out the list of lodgements?
2. Is it forbidden to obtain cash against cheques lodged in the bank?
3. Is the bank pay-in slip counterfoil or pay-in receipt stamped and dated by the bank?
4. Can the details on the counterfoil be checked against the individual entries in the cash-book?
5. Is a bank reconciliation prepared monthly and retained?
6. Is the reconciliation prepared or checked by a person not concerned with bank transactions?

CHEQUE PAYMENTS

1. Is the signing of blank cheques prohibited?
2. Is the signing of cheques restricted to the directors and secretary?
3. Do cheques require two signatures?
4. Is a duly authorized invoice, statement or other voucher on hand in respect of each payment for which a cheque is being signed?
5. Excluding salaries, wages, national insurance, travelling expenses and other payments normally made by cash, are all payments made by cheque?
6. Are all cheques (other than those for cash) crossed 'Not negotiable - Account payee only'?
7. Is it normal procedure to obtain specific receipts for:
 - (a) all payments by cheque?
 - (b) payments by cheque of a special nature such as payments on account or in settlement of claims, loans and disputed accounts?
8. Where the answer to question 7 (a) is 'No':
 - (a) Are 'paid' cheques obtained from the bank monthly?
 - (b) Are 'paid' cheques filed in order of the cash-book?

- (c) Are creditors' statements in respect of payments debited to creditors' ledger accounts:
 - (i) attached to the 'paid' cheque?
 - (ii) otherwise filed in such a manner that they can be easily referred to in support of the 'paid' cheques?
- (d) Are invoices, statements or other adequate evidence in respect of payments debited directly to the nominal ledger:
 - (i) attached to the 'paid' cheques?
 - (ii) otherwise filed in such a manner that they can be easily referred to in support of the 'paid' cheques?
- (e) Is particular care taken to ensure that the payee's name is properly stated?
- (f) Where 'paid' cheques have been endorsed, is inquiry made as to the reason for the endorsement?
9. Does the business have an arrangement with the bank whereby it issues cheques with the letter 'R' on the face, and:
 - (a) a receipt, incorporating a description of the liability discharged, on the back of the cheque?
 - (b) a simple acknowledgement on the back of the cheque?
10. Does the arrangement in (9) above apply to all payments made by cheque?

CASH PAYMENTS

1. Apart from salaries, wages and national insurance, are all cash payments made from an imprest fund?
2. Are vouchers or pay slips a prerequisite for making a payment in cash?
3. Are these vouchers and pay slips authorized by a party other than the cashier?
4. Are these vouchers and pay slips filed in the order of the register of expenditure?
5. Is the expenditure suitably analysed?
6. Are refunds of travelling expenses supported by a detailed statement with vouchers where applicable?
7. Are these statements checked and passed by a responsible person other than the cashier or petty cashier?
8. Does the cashier check the expenditure incurred during the period of the imprest before refunding to the petty cashier the amount expended?

9. Does the cashier check the balance remaining in the hands of the petty cashier at regular intervals?
10. If cash payments are not controlled by an imprest, does the cashier keep a daily balance book showing clearly the composition of the cash balance?

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STOCK

1. Are all incoming goods received into a single receiving store or depot?
2. Are particulars of all goods received and the date of receipt recorded by this store and advised to:
 - (a) department or store receiving the goods?
 - (b) stock control department?
 - (c) purchasing department?
3. Does the system provide for the goods being checked as to quantity and quality by the receiving department or store and any deficiency advised to the stock control and purchasing departments?
4. Are perpetual stock records maintained for:
 - (a) raw materials?
 - (b) finished stock?
 - (c) stores?
5. Are bin cards maintained at the stock-holding points?
6. Are all issues from stock supported by authorized requisition notes?
7. If the answer to question (4) is 'Yes' are the recorded stocks regularly checked with the physical stocks?
8. Is a record maintained of the alterations made following stocktaking during the year to bring the stock control records into line with the actual stock?
9. If the answer to question (4) is 'No' is the physical stock at the close of the accounting year taken by someone other than the storekeeper or the person in charge of the stock?
10. Have we on our permanent file a copy of the instructions given for stocktaking?
11. Does the system provide from the cost records a check on the raw materials used in production?
12. Does the system provide for the control of finished stock in quantity from the records of production and sales?
13. Does the system provide for the control of the value of finished stock at various branches, depots or departments, by charging out at selling price?

Dates

14. Do the stock records record purchase prices as well as quantities?
15. Are returnable packages deleted from purchase invoices?
16. Is a record maintained of packages received and returned, and the balance reconciled with the stock of packages on hand?
17. Is the stock adequately covered by insurance against loss from:
 - (a) fire?
 - (b) burglary?
 - (c) storm and other risks?
18. Are records maintained of the loss of stock in the course of production or otherwise?
19. Does the system provide safeguards against the theft of stock by:
 - (a) employees?
 - (b) the public?
20. Is provision made for the depreciation of stock which has:
 - (a) deteriorated in quality?
 - (b) become obsolete?
 - (c) become slow moving?

Dates

WAGES

PERMANENT RECORDS

1. Are records maintained of engagements, resignations and dismissals?
2. Is there a scale of rates of pay, to which reference may be made for:
 - (a) normal rates?
 - (b) overtime rates?
 - (c) bonus rates?
3. Is there a record of standard deductions to be made from pay?

PREPARATION OF PAYROLL

1. Are the wages of time-workers checked by reference to either:
 - (a) time sheets? or
 - (b) clock cards?
2. Are the wages of piece-workers checked by reference to approved production records?
3. Are bonus payments checked by reference to approved bonus records?
4. Are the gross wage of, and deductions from, each employee on the payroll checked by a person other than the clerk making the entry in the payroll?
5. Is the payroll examined weekly by a senior official and signed by him?

PAYMENT OF WAGES

1. Is a cheque drawn for the exact amount of the net wages payable to employees?

Dates

Dates

Dates

2. Is cash drawn for payment of wages kept separate from all other cash?
3. Does the system prevent any employee engaged on the preparation of the payroll from gaining access to the cash used for payment of wages?
4. Is the payout made by a person not employed in the preparation of the payroll nor in the making up of the pay?
5. Is the foreman present at the payout?
6. Does the employee sign for his pay?
7. Is there a prohibition on the drawing by employees of another man's wages?

UNCLAIMED WAGES

1. Are unclaimed wages immediately entered in an unclaimed wages book?
2. Is this a bound book?
3. Is this book signed by:
 - (a) the pay clerk?
 - (b) the foreman present at the payout?
4. Does the employee or his representative sign when he duly receives his wage?
5. Is the identity of the recipient confirmed by the foreman?
6. Are unclaimed wages banked at least once per month?

GENERAL

1. Are advances of wages prohibited?
2. Is such prohibition effective?
3. Are deductions from wages such as 'holiday savings' etc. paid over to the person in control of such funds:
 - (a) immediately?
 - (b) by cheque?
4. Are all such funds in the hands of employees subject to audit:
 - (a) by us?
 - (b) by a third party?
5. Is there a satisfactory system for payment of employees:
 - (a) when they are off ill?
 - (b) when they leave?
6. Are suitable arrangements made during the holiday season to maintain the efficacy of the system of internal control?
7. Is a surprise count made of cash in hand of the wages staff, including:
 - (a) unclaimed wages?
 - (b) unclaimed income tax refunds?
 - (c) insurance stamps?
 - (d) holiday stamps?
 - (e) funds held for employees' organizations?
 - (f) employees' savings held in trust?
 - (g) cash floats?

NATIONAL INSURANCE

1. Is payment for insurance stamps made by:
 - (a) bulk stamping system?
 - (b) franking machine?
 - (c) cheque to Postmaster-General?
2. Are exact requirements of insurance stamps purchased weekly/monthly?
3. Are the stamps affixed to the cards without delay?
4. Does a responsible official examine the cards periodically to see that they are all stamped up to date?
5. Are there satisfactory arrangements for the stamping of cards of:
 - (a) employees on holiday?
 - (b) employees absent on sick leave?
 - (c) new employees?
 - (d) employees who leave before pay day?
 - (e) casual employees?
6. Is there a float of insurance stamps (state amount)?
7. Are the stamped cards covered by insurance against loss by fire and theft?

P.A.Y.E.

1. Is a ledger account maintained for income tax deductions?
2. Are payments to the Inland Revenue made monthly?
3. Are the Inland Revenue weekly deduction tax cards for employees used?

If not, do the payroll records show the cumulative figures required by the Inland Revenue each week?

Has the Inland Revenue's approval of the arrangements been obtained?
4. Where the Inland Revenue weekly tax deduction cards are used, are the gross pay and tax deducted checked against the payroll?
5. Where the Inland Revenue tax deduction cards are used, are the weekly totals of the gross pay per the cards reconciled with the gross wage per the payroll?

Is this reconciliation done weekly or cumulatively at the end of the year?
6. Where the Inland Revenue tax deduction cards are used, are the weekly totals of tax deducted per the tax cards reconciled with the deductions per the payroll?

Is this reconciliation done weekly or cumulatively at the end of the year?

Is a copy of the employer's annual return to the Inland Revenue retained?

Weekly Notes

Royal Occasion

THE visit of the Queen and the Duke of Edinburgh to Stirling last Tuesday, besides being a royal occasion, was also something of an accounting occasion. On their arrival at Stirling in the royal train, Her Majesty and His Royal Highness were received by Her Majesty's Lieutenant for Stirlingshire, Captain Sir Ian Bolton, Bt., K.B.E., H.M.L., LL.D., J.P., C.A., who was President of the Scottish Institute in 1955-56.

The Provost of Stirling, Mr W. Macfarlane Gray, J.P., F.A.C.C.A., a Past President of The Association of Certified and Corporate Accountants, who received the O.B.E. in this year's Birthday Honours, presented the Keys of the Burgh to the Queen who returned them to him before Her Majesty and His Royal Highness proceeded on their tour.

Oxford Summer Course

THE first of the two summer courses to be held this year by The Institute of Chartered Accountants in England and Wales opens at Christ Church, Oxford, next Friday, and will end on the following Tuesday morning.

This is the fifteenth occasion on which the course has been arranged at Christ Church and once again members from all parts of the country will have an opportunity of meeting one another and of discussing some of the important matters confronting the accountancy profession. Three papers are to be presented, the first on Friday morning by Mr A. B. Snow, F.C.A., will be on the subject 'Services to the private company and its members'. On Saturday morning Mr J. S. Heaton, F.C.A., will present a paper entitled 'Surtax and companies' and the third paper will be given on Monday morning by Mr R. O. A. Keel, F.C.A., on 'The problems of a group upon the acquisition of companies'.

Two further sessions of interest will be an informal talk by Sir Theobald Mathew, K.B.E., M.C., Director of Public Prosecutions, on a subject of his own choosing, and a discussion before the whole course between Mr J. L. Carey, Executive Director of the American Institute of Certified Public Accountants, Mr Alan S. MacIver, C.B.E., M.C., B.A., Secretary of the Institute, and Mr F. M. Wilkinson, F.C.A., Deputy Secretary.

Group discussion meetings will again play an important part at the course, while each afternoon will be made free for members to use as they wish for private study, mutual discussion and recreation, or

to join one of the several visits to industrial concerns in the Oxford locality.

Mr P. F. Granger, F.C.A., President of the Institute, will preside at the Guest Night Dinner on Monday evening, when Mr A. L. P. Norrington, M.A., Vice-Chancellor, Oxford University, The Very Rev. C. A. Simpson, D.D., Dean of Christ Church, Mr H. C. Treffers, President of the Nederlands Instituut van Accountants, and Mr J. L. Carey will be among those present.

Finance Bill Second Thoughts

THE Finance Bill completed its passage through the House of Commons this week and is now in process of passing through the House of Lords. It should reach the statute book well before the end of the month.

When we reviewed what was then clause 22 in a leading article in our issue of June 10th, we pointed out a defect in the drafting and suggested that the clause needed strengthening. This was, in fact, done this week on an amendment moved by the Chancellor of the Exchequer. The clause restricted the deductions for the hire of cars for business purposes, where the retail price of the car at the time it was made was more than £2,000. The clause as originally drafted was expressed not to apply to 'hire purchase'. We pointed out that this drafting left it open to the hirer to hire on terms that he had an option to purchase at the full retail price - an option which he never would exercise. This would be enough to permit him to charge the full cost of hire, no matter how costly the car, and would have allowed anyone to drive a coach and four through the new legislation on expensive cars. The Chancellor's new clause is directed to preventing this. It also provides for a realistic apportionment, in a hire-purchase agreement, between the cash price and the hire-purchase charges. A new sub-clause exempts a manufacturer of expensive cars, in respect of cars used for testing the car or its accessories.

Scottish Institute's Examinations

PART V of the examinations of The Institute of Chartered Accountants of Scotland under the new syllabus was held in May and the results are now announced.

The first winner of the Institute's Gold Medal (the introduction of which was referred to in our issue of June 17th) is Mr John Harvey Dover, of Glasgow, whose performance over Parts IV and V was the most meritorious. Mr Dover also wins the Institute's Prize for the most meritorious performance in Part V alone.

Other prize-winners on the results of Part V are Mr Ronald James Simpson, of Dundee, who wins the John Munn Ross Prize; Mr David Anthony Laurel and Mr Ian Reid Sinclair, who tie for the J. C. Burleigh Prize for the most meritorious performance by a London candidate; and Miss Janet White Lorimer, of Glasgow, who wins the Guthrie

Prize for the woman candidate with the most meritorious performance.

A total of 146 candidates sat for this part of the examination and 75 (51.37 per cent) were successful. Their names appear elsewhere in this issue.

In the Second Division of the Final examination (old syllabus), also held in May, there were 215 candidates, of whom 71 (33.02 per cent) passed. The names of the successful candidates are also listed elsewhere in this issue.

Irish Institute's Examinations

THE first examinations under the new syllabus of The Institute of Chartered Accountants in Ireland were held in May. Under the syllabus five annual examinations are to replace the former Intermediate and Final. In the Part II examination the First Place and John Mackie Memorial Prize were won by Mr Desmond Brendan Cuffe, of Dublin, and in the Part IV examination the First Place and Samuel Smyth Memorial Prize were won by Mr Robert John Welch, of Belfast.

In the Final examination (old syllabus) the First Place with Honours, Arthur H. Muir Memorial Prize and the Institute Gold Medal were won by Mr A. P. M. O'C. M. Molony, of Dublin. Second Place was awarded to Mr Daniel Charles Daly, of Kanturk, Co. Cork, and Third Place to Mr Austin Francis O'Connor, of Dublin.

The names of the successful candidates in these examinations and in the Preliminary are published elsewhere in this issue.

Bank of England Bulletin

A FEATURE of the third *Quarterly Bulletin* of the Bank of England published last Wednesday covering the first quarter of 1961 is the light it throws on the scale of the movements in the international capital market consequent upon the revaluation of the German mark and the Dutch guilder early in March. Between March 6th and 11th over \$300 million entered Switzerland, of which sum \$180 million was received on the day Germany revalued the mark. According to the *Bulletin*, the Bank of England were strong buyers of sterling and on occasion were able to force up the sterling rate by determined selling of foreign exchange.

By acting in this way, it is reported, the Bank aimed to restore confidence in sterling stability more quickly than would otherwise have been the case. (In passing, one may observe with satisfaction that the authorities' positive policy denotes that they have recognized that reserves are kept for use in such an emergency.) Since then, although sterling sales have lessened, the pound has remained under pressure. A partial and essentially short-term remedy has been provided by the policy of co-operation agreed upon at the March meeting of the Bank for International Settlements whereby, according to the *Bulletin*, the

impact on United Kingdom reserves of large short-term capital movements has been mitigated by offsetting arrangements between the central banks.

Two brief articles in the *Bulletin* bring up to date the figures for the financial surplus of the private sector which were given in the first issue, and the data relating to United Kingdom overseas portfolio investments which were published in the Bank's annual report for 1960.

A valuable feature in the current issue is the article dealing with finance for exports and the new measures which have come into force in recent months. The *Bulletin* observes that a considerable improvement has been achieved in the credit facilities offered exporters and while the latter may not as yet be wholly satisfied, the *Bulletin* remarks that there have been several reports of exporters in competitor countries urging upon their Governments the importance of matching the facilities now available to their United Kingdom counterparts.

There is the usual substantial statistical section and the account of the sale of the prior charges of the steel companies last month and its organization at the Bank is of considerable interest.

Cost of Defence

THE latest issue of the *Bulletin for Industry* has produced some statistics of the burden of defence expenditure. It points out that although the proportion of the gross national product taken by defence outlay has eased off in the last few years it remains the largest single item of Government expenditure. In 1950 the percentage of the gross national product taken by defence expenditure was 7.4. It was over 10 per cent in each of the three years 1952 to 1954 and came down to 7.4 in 1960.

About a third of the defence burden of 1961-62, which totals £1,656 million, is made up of service men's and civilians' pay. Production and research account for nearly 40 per cent. Since 1954 there has been a fall in the orders for motor vehicles, guns, armour, ammunition and textiles. There has been an increase in orders for electronic equipment.

The *Bulletin* analyses the effect of defence expenditure on the balance of payments. It points out that defence outlay limits the growth of exports since it makes claims on resources which could otherwise be used in export industries. Overseas military expenditure affects the balance of payments and in 1960 the provisional figure of outlay in foreign currency was £215 million after deducting local receipts. Some four-fifths of this outlay is on maintaining defence establishments and a major item is the foreign exchange cost of the United Kingdom forces in Germany. There is some gain to the balance of payments from defence outlay in the form of United States and Canadian forces expenditure in this country and exports receipts from arms shipments, but overall, defence is a heavy burden on the balance of payments.

Tales of a Tax Man

by HAROLD E. COX

2 - WORDS, WORDS, WORDS,

ACCOUNTANTS and Inspectors of Taxes spend a large part of their professional lives writing letters to each other, or maybe, at each other. Having read and written thousands of such letters, I am often amazed to find how difficult it is to say succinctly and methodically what has to be said. So few people trouble to arrange their thoughts in some sort of sequence before setting out to write or dictate a letter. So many on both sides suffer from a rush of words to the tongue. A colleague of mine invariably wrote letters which could have been textbook examples of prolixity, turgidity and, indeed, of stupidity. Solid slabs of paragraphs, sentences interlarded with references to sections and *Tax Cases*; punctuated with an occasional Latin tag, or a legal phrase - a lot of cloth, often with precious little pudding.

One hedge-row accountant on the receiving end used to telephone me from time to time: 'Mr Cox, listen to this for a minute.' And he would read stolidly on and on, down the 'labyrinthine ways' of prose, finally gasping, 'What the 'ell is it all about?' He had no *Tax Cases*, no Latin and probably no Income Tax Act or Finance Acts! If all this is necessary (and I am positive it is not), then surely the obvious answer is an interview.

Bishop Wilberforce is reputed to have begun a sermon to a village congregation with these words: 'Around us we see the apotheosis of nature, apodeitic of theopractic cosmogony.' Another symptom of the same disease.

Admittedly, it is frequently quite difficult to reply to a letter, or to give information, simply and at the same time fully and adequately. This difficulty is aggravated by the traditionally stilted style in which commercial correspondence is carried on. We are all suffering from a surfeit of officialese, jargon and gobbledegook; our letters are barnaced with them; our thoughts are blinkered by them. Any deviation from this normal podge is a veritable godsend. The following letter written by an Indian lawyer to his client might be an example:

'Dear Sir,

'Unless you pay the 100 rupees within seven days, we shall take such steps as will cause you the utmost damned astonishment.

Yours truly,'

During my many years as an Inspector of Taxes, I wrote scores of letters which caused some 'damned astonishment', but I can never recall offending anyone, mainly because I always remembered to add a dash of humour to the bitters of official interrogation.

And much to my pleasure I found that accountants quite often responded happily and good-humouredly.

Writing a prose which is clear and concise would not appear to be at first sight an enormously difficult task, but there are the inherent difficulties, always associated with the use of words, as tools, to be overcome.

'When I use a word,' Humpty Dumpty said in a rather scornful tone, 'it means just what I choose it to mean - neither more nor less.' 'The question is,' said Alice, 'whether you *can* make words say different things.' 'The question is,' said Humpty Dumpty, 'which is to be master - that's all.'

Which is to be master - that's the rub!

Edward Tappercoom, a Justice of the Peace in Christopher Fry's enchanting play, *The Lady's not for Burning*, drops this sparkle of dialogue: 'No Tyson, the whole thing's a lot of amphigourous stultiloquent fiddle-faddle.'

And this is equally true of the following extract from a Royal Commission report:

'In our view it would be exceptional and wrong that any factor determining an individual's remuneration should be, not what he actually has, but what he might have had if he had done, or could have done other than he did.'

What Mr Polly no doubt meant when he exclaimed, 'Eloquent rapsodoce'. The problem is a tough one when you wrestle with words.

A bemused taxpayer pinned to his income tax return a note on which he had written, 'I have made out the enclosed form to the best of my ambiguity'. Everyone who has waded through the welter of words which go to make up an income tax return, with its explanatory inset, will sympathize with him. One wit has suggested that all income tax forms need have only three questions: (1) How much have you got? (2) Where is it? (3) When can we come and get it?

But this flocculation of the vocabulary is by no means an exclusive Civil Service disease. Oddly enough many ordinary folk suffer from it, especially when writing to Government departments - intending presumably to impress. The following extract from an actual letter sounds almost incredible:

'I should like to draw your attention to the immense increase in the amount of tax now being extracted from me. Prior to a few weeks ago I paid the sensible and proportionate amount of one shilling per week. Incidentally, I must mention that two other cleaners are living juxtaposed to me and upon observing their pay-slips with income tax column showing the legitimate sum of one shilling, I think I have justification in being amazingly perplexed and drawn to the logical conclusion that there is something egregiously inaccurate. I should be obliged if you would elucidate this tenebrosity as the present amount is anxiously attenuating my weekly emoluments.'

Polonius: 'What do you read, my lord?'

Hamlet: 'Words, words, words.'

Finance and Commerce

Massey-Ferguson

THE 1960 annual report of Massey-Ferguson Ltd was earmarked for reference in this column some time ago and an opportunity to refer to it has only now arisen. It is selected not only as an illustration of the reporting of a company with a world-wide name from its headquarters in Toronto, but also for the emphasis given to the company's sales figures. Sales are published and analysed to a degree that few United Kingdom companies can equal.

The accounts are for the year to October 31st, 1960, the report of the auditors was signed on January 4th, and the directors' report to shareholders was dated January 30th at Toronto. Despite the efflux of time, however, the material provided retains its interest and the accounts form this week's reprint.

Massey-Ferguson is, of course, a leading world-name in agricultural machinery. Several pages in the report list by countries and towns the products manufactured at the various centres. Included is the Perkins Group, the Peterborough engine manufacturers, and the tractor interests of the Standard Motor Company, acquired in 1959. Integration of these interests has been completed. 'Exceptional arrangements in management organization were required, with the President assuming direct responsibility for the programme.'

Separate Statements

The accounts presented in this report cover, as in previous years, the operations of the company and its subsidiaries throughout the world, but there is a separate statement of the unconsolidated position of two wholly-owned finance companies in North America formed to purchase instalment contracts of retail purchasers of Massey-Ferguson equipment which began operations in September 1960.

This statement, included in the reprint, shows accumulated losses of \$541,407, but it is explained that both companies account on a cash receipt and disbursement method whereby interest income is recorded when received and operating expenses are reflected when paid, except that allowance has been made in the accounts for possible losses on doubtful notes. The result of using the cash method rather

than the accrual is to increase the opening period's losses by approximately \$300,000.

The formation of these two companies and the sale to them of retail instalment notes has, of course, reduced the working capital as shown in the consolidation which, although \$722,906 up at \$175,572,190, would have been \$10,235,000 higher by consolidating all retail notes and applicable bank loans. It is pointed out, however, that their establishment follows the trend within the agricultural machinery industry in North America to provide a source of long-term retail credit.

Highlights

While the sales figures are set out in the tables, some of the highlights are given in the Financial Review. Consolidated sales at \$490.4 million were 3 per cent up on the previous 1959 record. Declines occurred in certain major markets, notably the United States and France, but gains in other areas, coupled with a full year of Perkins Group sales, resulted in a net increase of \$14,870,347. In the United States there was some lessening in retail sales of farm machinery with a consequent balancing in the mix and levels of dealer inventories and resulting in a decline in wholesale sales of 10.9 per cent from 1959. But the Canadian market was buoyant and sales to dealers rose 11.2 per cent.

In Australia there was a gain of 23 per cent over 1959, with conditions again favourable. In France there was a drop of 12 per cent reflecting unsettled conditions in agriculture and the lack of a full range of tractors to meet European market requirements – 'a situation which will markedly improve with the introduction of the new MF 825 tractor'.

Excluding the effect of Perkins sales, 1960 sales in the United Kingdom dropped 21.8 per cent, but including Perkins the fall was 5.4 per cent. Total domestic and export sales of farm machinery and diesel engines from operations in the United Kingdom rose 14.7 per cent, with export sales at record levels. A notable point was the increase of 34.8 per cent in sales in Germany 'in a generally favourable economic climate'.

Looking Ahead

For the longer term, much is expected from the consolidation and rationalization of manufacturing activities in France. As a result of the take-over of Standard Motor tractor assets, the company acquired a property at Beauvais and there has since been erected there in record time a factory which should be of great benefit to the company's competitive position in the rapidly developing Common Market. Laid out for a capacity of 250 tractors a day, production at Beauvais includes the new '825' which will be produced initially for the French and German markets. 'Our market research indicates that this

Massey-Ferguson Limited
CONSOLIDATED BALANCE SHEET

October 31, 1960 (with comparative figures at October 31, 1959)

ASSETS		LIABILITIES	
CURRENT:	1960	CURRENT:	1960
Cash	\$ 3,916,216	Bank loans and overdrafts	\$ 55,339,277
Receivables (less allowances and unearned interest—Note 2)	\$ 10,750,450	Accounts payable and accrued charges	83,832,328
Retail notes	129,005,420	Income, sales and other taxes payable	11,691,558
Wholesale notes and accounts	13,468,618	Dividends payable	1,564,480
Other trade and sundry accounts	\$153,224,488	Advance payments from customers	2,533,945
Inventories, valued at the lower of cost or market	\$ 63,899,700	TOTAL CURRENT LIABILITIES	\$154,961,588
Raw materials and work in process	108,024,975	DEFERRED INCOME TAXES (Note 3)	\$ 5,135,837
Finished goods	\$171,924,675	MINORITY INTEREST (Preferred shares of subsidiaries)	\$ 3,359,945
Insurance deposits, prepaid expenses, etc.	\$ 1,468,399	LONG TERM DEBT:	
TOTAL CURRENT ASSETS	\$330,533,778	Bonds, debentures, notes and loans (Note 7)	\$ 98,424,992
INVESTMENTS (Shares and advances):		Less instalments maturing within one year, included with	
Wholly-owned finance companies, at cost less provision for	\$ 9,512,142	accounts payable and accrued charges	4,775,887
losses (Note 1)	3,597,473		\$ 93,649,105
Associated companies, at cost	\$ 13,109,615	CAPITAL AND RETAINED EARNINGS:	
FIXED:		Authorized share capital—	
Land	\$ 4,433,468	500,000 preferred shares, per value \$100 each	
Buildings	56,921,488	20,000,000 common shares without nominal or par value	
Machinery and equipment	117,127,587	Outstanding (Note 4)—	
Production tooling	13,776,282	Cumulative convertible preferred shares	
• Total fixed assets at cost	\$192,258,825	4½% redeemable at \$104.50 (1960—9,665 shares; 1959—	
Less accumulated depreciation and amortization	80,096,811	9,860 shares)	\$ 966,500
OTHER ASSETS AND DEFERRED CHARGES	\$12,162,014	5½% 1959 series—redeemable at \$105.50 (250,000 shares)	25,000,000
	\$ 2,227,685	Common shares (1960—12,098,471 shares; 1959—12,075,911	
		shares)	56,987,634
		Contributed surplus	1,785,973
		Retained earnings (Note 5)	116,186,510
			\$200,926,617
			\$458,033,092
			\$465,354,553

(See accompanying notes to financial statements. [Not reproduced—Ed.])

Approved on behalf of the Board:
W. Eric Phillips, Director
Albert A. Thornbrough, Director

MASSEY-FERGUSON FINANCE COMPANY OF CANADA LIMITED
and
MASSEY-FERGUSON FINANCE CORPORATION

COMBINED STATEMENT OF ASSETS AND LIABILITIES

October 31, 1960

ASSETS		
Cash		\$ 864,880
Retail notes receivable (of which approximately \$19,000,000 mature beyond one year)		\$46,113,975
Less:		
Unearned interest	\$5,361,525	
Allowance for doubtful notes	468,000	
	5,829,525	40,284,450
Discount on notes payable to banks		212,812
		<u>\$41,362,142</u>
LIABILITIES		
Notes payable to banks - short term		\$31,850,000
Current accounts payable to Massey-Ferguson Limited and Massey-Ferguson Inc. (net)		52,449
Equity of Massey-Ferguson Limited and its subsidiaries:		
Interest bearing notes payable - (including \$2,000,000 subordinated to claims of United States banks)		\$ 3,000,000
Share capital		7,001,100
		<u>\$10,001,100</u>
Deduct accumulated losses (Note 2) [below]	541,407	9,459,693
		<u>\$41,362,142</u>

NOTES

1. The above statement combines the accounts of Massey-Ferguson Company of Canada Limited and Massey-Ferguson Finance Corporation (U.S.A.). The assets and liabilities of the United States company are included on the basis of U.S. \$1 = Can. \$1.
2. The accounts and books of both companies are maintained on a cash receipt and disbursement method whereby interest income is recorded when received and operating expenses are reflected when paid except that allowance has been made in the accounts for possible losses on doubtful notes. The result of using the cash method rather than the accrual method of accounting is to increase the opening period's losses by approximately \$300,000.

AUDITORS' REPORT

To the Shareholders of
Massey-Ferguson Limited:

We have examined the combined statement of assets and liabilities of Massey-Ferguson Company of Canada Limited and Massey-Ferguson Finance Corporation as at October 31, 1960. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying statement presents fairly the combined assets and liabilities of Massey-Ferguson Finance Corporation of Canada Limited and Massey-Ferguson Finance Corporation as at October 31, 1960, on the basis of accounting described in Note 2 to the statement.

CLARKSON, GORDON & CO
Chartered Accountants.

Toronto, Canada.
January 4, 1961.

Massey-Ferguson Limited

STATEMENT OF CONSOLIDATED INCOME

	1960	1959
<i>Year ended October 31, 1960 (with comparative figures for 1959)</i>		
Net sales	\$490,413,988	\$475,543,641
Add:		
Interest and finance charges earned, etc.	4,308,643	3,651,307
Profit on sale of capital assets	764,919	203,374
	<u>\$495,487,550</u>	<u>\$479,398,322</u>
Deduct:		
Cost of goods sold	\$390,547,157	\$378,633,650
Marketing expenses	46,099,406	42,072,662
General and administrative expenses	15,151,683	12,745,822
Engineering expenses	11,692,388	8,606,011
Interest on long term debt	4,839,198	3,442,826
Minority interest (dividends on preferred shares of subsidiaries)	231,028	226,825
Bank interest	8,799,018	4,615,688
Exchange adjustments	(3,014,230)	1,890,694
	<u>\$474,345,648</u>	<u>\$452,234,178</u>
Profit before income taxes and special provision	\$ 21,141,902	\$ 27,164,144
Income taxes	(1,216,768)	(13,345,751)
Tax credits (Note 3)	(3,900,000)	(7,200,000)
Special provision for abandoned production equipment		
\$1,348,042, less applicable taxes	671,190	
	<u>\$ 13,153,944</u>	<u>\$ 21,018,393</u>
Net income for the year		

SUPPLEMENTARY INFORMATION

The following amounts were paid during the year ended October 31, 1960 to the directors, executive officers and solicitors of the Parent Company: Fees to directors not holding salaried employment \$51,915; remuneration to executive officers, including directors holding salaried employment, and to the Company's solicitors \$761,236.

Depreciation, and amortization of production tooling included above amounted to \$18,761,090 in 1960 and \$12,130,775 in 1959.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	1960	1959
<i>Year ended October 31, 1960 (with comparative figures for 1959)</i>		
Balance at beginning of year	\$109,287,629	\$ 93,252,554
Add:		
Net income for the year	13,153,944	21,018,393
Transfers from capital surplus		1,680,569
	<u>\$122,441,573</u>	<u>\$115,951,516</u>
Deduct:		
Dividends on preferred shares	\$ 1,418,986	\$ 1,091,587
Dividends on common shares (40¢ per share)	4,836,077	4,654,002
Commission and other expenses relating to issue of 5½% preferred shares	918,298	918,298
	<u>\$ 6,255,063</u>	<u>\$ 6,663,887</u>
Balance at end of year	\$116,186,510	\$109,287,629

(See accompanying notes to financial statements. [Not reproduced-Ed.])

THE
ACCOUNTANT

July 8th, 1961

Massey-Ferguson Limited

**FINANCIAL
HIGHLIGHTS**

	1960	1959	1958	1957	1956
Net sales	\$490,413,988	\$475,543,641	\$420,209,743	\$390,757,516	\$355,124,151
Net income or (loss) before tax credits	\$ 9,253,944	\$ 13,818,393	\$ 9,625,282	\$ (9,783,693)	\$ (909,511)
Tax credits	3,900,000	7,200,000	3,400,000	5,046,352	4,068,842
Net income or (loss).....	\$ 13,153,944	\$ 21,018,393	\$ 13,025,282	\$ (4,737,341)	\$ 3,159,331
Total dividends on preferred shares	\$ 1,418,986	\$ 1,091,587	\$ 1,094,094	\$ 1,101,273	\$ 1,110,048
Total dividends on common shares.....	\$ 4,836,077	\$ 4,654,002	\$ 3,818,441	\$ 3,807,528	\$ 4,759,402
Per common share—					
Net income or (loss) before tax credits.....	\$.65	\$ 1.05	\$.89	\$ (1.14)	\$ (.21)
Tax credits .....	.32	.60	.36	.53	.43
Net income or (loss)	\$.97	\$ 1.65	\$ 1.25	\$ (.61)	\$.22
Dividends per common share	40¢	40¢	40¢	40¢	50¢
Net current assets (working capital).....	\$175,572,190	\$174,849,284	\$153,506,389	\$156,417,612	\$170,275,865
Current ratio	2.1	2.0	2.8	3.5	3.7
Additions to fixed assets.....	\$ 16,932,739	\$ 68,906,886	\$ 16,300,759	\$ 12,227,842	\$ 14,720,723
Depreciation, and amortization of production tooling	\$ 18,761,090	\$ 12,130,775	\$ 8,584,503	\$ 8,367,023	\$ 7,095,946
Long term debt	\$ 98,424,992	\$100,766,263	\$ 74,237,838	\$ 78,007,310	\$ 78,504,288
Common share capital and retained earnings	\$174,960,117	\$167,914,596	\$129,001,850	\$120,636,338	\$130,245,223
Equity per share of common stock	\$14.34	\$13.79	\$13.39	\$12.56	\$13.57
Convertible 5½% and 4½% preferred shares outstanding	259,665	259,860	242,570	243,646	245,596
Common shares outstanding	12,098,471	12,075,911	9,552,248	9,519,155	9,519,155
Numer of shareholders	42,171	41,459	34,024	35,398	34,535
Average number of employees.....	35,376	29,955	23,808	21,481	23,232

SOURCE AND APPLICATION OF FUNDS

(Thousands of dollars)

FUNDS MADE AVAILABLE	1960	1959	1958	1957	1956
NET INCOME (LOSS) FOR THE YEAR	\$13,154	\$21,018	\$13,025	\$(4,737)	\$ 3,159
DEPRECIATION, AND AMORTIZATION OF PRODUCTION TOOLING	18,761	12,131	8,585	8,367	7,096
INCREASE IN LONG TERM DEBT	1,503	30,948	153	2,175	24,069
ISSUE OF PREFERRED SHARES, LESS EXPENSES OF ISSUE		24,082			
COMMON SHARES ISSUED UNDER OPTION AGREEMENTS	147	1,287	145		
ISSUE OF PREFERRED SHARES BY SUBSIDIARIES, LESS DISCOUNT AND EXPENSES					3,230
REDUCTION IN INVESTMENT IN ASSOCIATED COMPANIES		8,998			
NET BOOK VALUE OF FIXED ASSET DISPOSALS	3,182	1,751	3,122	1,171	948
INCREASE IN DEFERRED TAXES—U.K.	4,283	853			
OTHER		19	7		
TOTAL	\$41,030	\$101,087	\$25,037	\$ 6,976	\$38,502
FUNDS APPLIED					
ADDITIONS TO FIXED ASSETS	\$16,933	\$68,906	\$16,301	\$12,228	\$14,720
PAYMENT OF COMMON SHARE DIVIDENDS	4,836	4,654	3,818	3,808	4,759
PAYMENT OF PREFERRED SHARE DIVIDENDS	1,419	1,091	1,094	1,101	1,110
REDUCTION IN LONG TERM DEBT AND PREFERRED SHARES OF SUBSIDIARIES	4,837	5,093	4,316	2,769	1,046
INCREASE IN INVESTMENT IN ASSOCIATED COMPANIES	2,125		2,419	358	5,618
INVESTMENT IN NORTH AMERICAN FINANCE COMPANIES	9,512				
TRANSFER FROM DEFERRED INCOME ON SALES TO DEALERS					
OTHER	645			570	305
TOTAL	\$40,307	\$79,744	\$27,948	\$20,834	\$28,991
INCREASE (DECREASE) IN WORKING CAPITAL	723	21,343	(2,911)	(13,858)	9,511
TOTAL	\$41,030	\$101,087	\$25,037	\$ 6,976	\$38,502

Massey-Ferguson Limited

NET SALES BY TERRITORIES

(Thousands of dollars)

Territories	1960	% of Total	1959	% of Total	1958	% of Total	1957	% of Total	1956	% of Total
NORTH AMERICA										
Canada	\$ 61,821	12.6%	\$ 55,605	11.7%	\$ 40,320	9.6%	\$ 41,514	10.6%	\$ 44,998	12.7%
United States	144,411	29.4	162,046	34.1	130,301	31.0	89,460	22.9	97,952	27.5%
Total	\$206,232	42.0%	\$217,651	45.8%	\$170,621	40.6%	\$130,974	33.5%	\$142,950	40.2%
EUROPE										
United Kingdom	\$ 65,544	13.4%	\$ 69,305	14.6%	\$ 56,461	13.4%	\$ 49,765	12.7%	\$ 38,517	10.9%
France	56,028	11.4	63,661	13.3	79,052	18.8	87,674	22.4	68,690	19.3
Scandinavia	22,526	4.6	18,490	3.9	15,960	3.8	18,504	4.7	16,396	4.6
Germany	20,309	4.1	15,062	3.2	10,142	2.4	9,606	2.5	7,026	2.0
Yugoslavia	11,064	2.3	8,348	1.8	6,667	1.6	5,805	1.5	3,328	1.0
Austria	3,630	.7	2,103	.4	3,570	.9	2,626	.7	1,100	.3
Italy	3,298	.7	1,884	.4	2,234	.5	2,801	.8	1,934	.5
Other European Countries	8,654	1.8	7,985	1.7	7,209	1.7	6,649	1.7	5,776	1.6
Total	\$191,053	39.0%	\$186,838	39.3%	\$181,295	43.1%	\$183,430	47.0%	\$142,767	40.2%
AUSTRALIA, NEW ZEALAND, ETC.										
Australia	\$33,944	6.9%	\$ 27,591	5.8%	\$ 25,636	6.1%	\$ 25,799	6.6%	\$ 27,425	7.7%
New Zealand	3,624	.7	1,776	.4	1,901	.5	6,939	1.8	2,650	.7
South Pacific	371	.1	473	.1	302	.1	276	.1	206	.1
Total	\$ 37,939	7.7%	\$ 29,840	6.3%	\$ 27,839	6.7%	\$ 33,014	8.5%	\$ 30,281	8.5%
AFRICA										
Union of South Africa	\$ 10,457	2.1%	\$ 7,075	1.5%	\$ 10,417	2.5%	\$ 14,638	3.7%	\$ 11,044	3.1%
Algeria	4,849	1.0	4,318	.9	3,765	.9	2,635	.7	2,097	.6
Other African Countries	8,065	1.7	7,044	1.5	5,803	1.4	7,043	1.8	5,901	1.7
Total	\$ 23,371	4.8%	\$ 18,437	3.9%	\$ 19,985	4.8%	\$ 24,316	6.2%	\$ 19,042	5.4%
ASIA										
India	\$ 8,138	1.7%	\$ 3,291	.7%	\$ 3,084	.7%	\$ 3,534	.9%	\$ 3,082	.9%
Other Asian Countries	10,744	2.2	11,307	2.3	7,931	1.9	5,643	1.4	6,026	1.7
Total	\$ 18,882	3.9%	\$ 14,598	3.0%	\$ 11,015	2.6%	\$ 9,177	2.3%	\$ 9,108	2.6%
LATIN AMERICA	\$ 12,937	2.6%	\$ 8,180	1.7%	\$ 9,454	2.2%	\$ 9,846	2.5%	\$ 10,976	3.1%
TOTAL	\$490,414	100.0%	\$475,544	100.0%	\$420,209	100.0%	\$390,757	100.0%	\$355,124	100.0%

NET SALES BY QUARTERS

(Thousands of dollars)

3 MONTHS ENDED	1960	% of Total	1959	% of Total	1958	% of Total	1957	% of Total	1956	% of Total
JANUARY 31	\$ 87,889	17.9%	\$ 82,505	17.3%	\$ 74,500	17.7%	\$ 64,973	16.6%	\$ 60,815	17.1%
APRIL 30	133,078	27.1	142,765	30.0	124,065	29.6	110,372	28.2	99,271	28.0
JULY 31	131,254	26.8	137,693	29.0	119,307	28.4	125,621	32.2	107,149	30.2
OCTOBER 31	138,193	28.2	112,581	23.7	102,337	24.3	89,791	23.0	87,889	24.7
TOTAL	\$490,414	100.0%	\$475,544	100.0%	\$420,209	100.0%	\$390,757	100.0%	\$355,124	100.0%

NET SALES BY PRODUCTS

(Thousands of dollars)

PRODUCTS	1960	% of Total	1959	% of Total	1958	% of Total	1957	% of Total	1956	% of Total
TRACTORS	\$221,428	45.2%	\$215,291	45.3%	\$193,019	45.9%	\$188,449	48.2%	\$157,715	44.4%
GRAIN HARVESTING EQUIPMENT	86,422	17.6	100,513	21.1	96,367	22.9	88,304	22.6	80,174	22.6
HAY HARVESTING EQUIPMENT	28,732	5.9	29,545	6.2	27,144	6.5	16,303	4.2	15,516	4.4
OTHER PRODUCTS	57,446	11.7	56,690	11.9	58,701	14.0	55,812	14.3	61,892	17.4
PARTS	48,742	9.9	48,921	10.3	44,978	10.7	41,889	10.7	39,827	11.2
DIESEL ENGINES	47,644	9.7	24,584	5.2						
TOTAL	\$490,414	100.0%	\$475,544	100.0%	\$420,209	100.0%	\$390,757	100.0%	\$355,124	100.0%

Nearing completion is an entirely new concept in farm machinery and industrial parts service to the company's customers throughout the world. Last November, the fourth and latest central parts warehouse went into operation at Urmston, near Manches-

ter. The other three are at Racine, United States, and Brantford, Canada – to serve North America – and at Athis-Mons, France. The new Urmston unit ships 50 per cent of its total volume to more than a hundred overseas markets and also handles the Perkins Group products on a world-wide basis.

REGULAR BUSINESS
DEFENCE

So the ghosts of 1957 are stalking the stock-markets again. Four years ago similar ghosts were quickly laid: political expediency overtook economic policy. By 1959 the great boom was on, which is precisely why the ghosts are stalking again and yet another Chancellor has had to say 'We are trying to do too much'. The difference is that Britain's export competitors are much stronger now than they were four years ago. We cannot get away with inflation now.

Consols 4%	59½	Funding 3% 59-69	80½
Consols 2½%	38½	Savings 3% 60-70	78
Conversion 5½% 1974	91½	Savings 3% 65-75	70½
Conversion 5% 1971	89½	Savings 2½% 64-67	83½
Conversion 3½% 1969	84½	Treasury 5½% 2008-12	87½
Conversion 3½%	53½	Treasury 5% 86-89	83½
Exchequer 5½% 1966	98½	Treasury 3½% 77-80	69½
Funding 5½% 82-84	91½	Treasury 3½% 79-81	69½
Funding 4% 60-90	86½	Treasury 2½%	38½
Funding 3½% 99-04	58½	Victory 4%	96
Funding 3% 66-68	81½	War Loan 3½%	53

Current Law

Freeholders Leasing to Themselves

IN *Rye v. Rye* ([1960] 3 All E.R. 810), the plaintiff contended that he and his deceased brother F., as the fee simple owners of certain premises, had leased those premises to themselves with a view to the premises being used for their partnership business, the reason for this arrangement being that the shares to which they were entitled in the partnership profits were not equal shares. The agreement was by parol, and there was no definite time agreed. After F.'s death, the defendant, as one of his executors, became one of the owners in fee simple of the premises. The plaintiff failed in an action against the defendant for, among other relief, possession of the premises, because he was unable on the facts to show a better title than the defendant, who was in possession.

The Court of Appeal, while on the facts it was not satisfied that the tenancy alleged had been established, yet indicated that by virtue of Sections 54 (2), 72 (4) and 205 (1) (ii) of the Law of Property Act, 1925, freeholders can grant to one or more of themselves by parol a lease of the land taking effect in possession for a term not exceeding three years.

Settlor under Incapacity by Foreign Law

THE settlor in *Re Langley's Settlement Trusts, Lloyds Bank Ltd v. Langley* ([1961] 1 All E.R. 78), made an English settlement in 1928, but since 1937 he had resided in the State of California, and under the law of California his wife had been appointed as guardian of his estate and person on the ground that he was an incompetent person by reason of old age and disease and was unable unassisted to manage and take care of himself or his property. The settlor suffered from multiple-sclerosis by reason of which he had little power of movement of any limb, but his mental capacity was unaffected, and he was under no incapacity according to English law. The settlement contained a provision permitting the settlor to withdraw from the settlement and require the trustee to transfer to him as his absolute property any part of the trust fund, and in 1959 the settlor gave notice withdrawing part of the capital thereof.

Buckley, J., held that the settlor was competent to do so and that the Court should pay no regard to the order which had been made in California. In so doing, his lordship followed *Worms v. de Valdor* ((1880) 41 L.T. 791) and *Re Selot's Trust* ([1902] 1 Ch. 488).

Implied Condition of Fitness

IN *Council of the Shire of Ashford v. Dependable Motors Pty Ltd* ([1961] 1 All E.R. 96), the Judicial Committee of the Privy Council in an appeal from the High Court of Australia considered Section 19 (1) of the New South Wales Sale of Goods Act, 1923-1953, which, so far as is relevant, provides that

'Where the buyer expressly or by implication makes known to the seller the particular purpose for which the goods are required so as to show that the buyer relies on the seller's skill or judgment, and the goods are of a description which it is in the course of the seller's business to supply (whether he be the manufacturer or not), there is an implied condition that the goods shall be reasonably fit for such purpose . . .'

and is thus in identical terms to Section 14 (1) of the Sale of Goods Act, 1893. The appellant council purchased from the respondent company a tractor which was required for road construction and proved unsuitable for that purpose. The tractor had been inspected by B., who was about to be appointed as the appellant's engineer, and he made known to the respondent the particular purpose for which the tractor was required and was assured that it would be suitable for that purpose.

Holding that the appellant had in fact relied on the respondent's skill and judgment, and was entitled to succeed, Lord Reid, delivering the advice of the Privy Council, said that B., although his appointment as engineer had not become effective, was acting within the scope of his authority in negotiating for the purchase of the tractor, and that it was therefore immaterial that he had not made either the appellant's clerk or its president fully aware of the assurance which he had been given regarding the tractor's suitability. Lord Reid pointed out that the appellant, being a corporation, could not itself rely on or be induced to act by anything, but could only rely on or be induced or act through its agents or servants, and B. was its agent when obtaining the vendor's assurances. Accordingly, the appellant was entitled to succeed.

Ineffective Deed Effective as Instrument under Hand

IN *Windsor Refrigerator Co Ltd, and Another v. Branch Nominees Ltd and Others* ([1961] 1 All E.R. 277), the Court of Appeal allowed an appeal from the decision of Cross, J. ([1960] 2 All E.R. 568). The facts of the case were given in *The Accountant* of November 19th, 1960, and need not be repeated here. The Court of Appeal accepted the learned judge's finding that the instrument in question was ineffective as a deed, but differed from him, in so far as he held that it could not be regarded as a document under hand. Lord Evershed, M.R. (with whom Harman and Donovan, L.JJ., concurred) saw no reason why the document, although purporting to operate as a deed, might not be valid as an appointment 'in writing'.

of a receiver. His lordship did not agree with the argument that, because the instrument was complete before a demand had been made for payment of the amount due, it was for that reason ineffective, and said that it seemed to him that that argument would lead to this absurd and unreal result that, if a man

made a document and locked it up in his desk with the idea that, although he did not want to use it at the moment, it would be there if at some future date he did require it, in that case the document would have been effective from the date when it was made and put away.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Coutts & Co (Stanhope's Trustees) v. C.I.R.

In the High Court of Justice (Chancery Division)

June 22nd, 1961

(Before Mr Justice BUCKLEY)

Estate duty – Exemption – Settled property – Duty paid on death of spouse – Surviving spouse's life interest in whole income – Whether duty on second death would be payable in respect of same property – Competency to dispose – Whether part of settled estates non-exempted – Finance Act, 1894, Sections 1, 2 (1) (b), 5 (2), 16 (3) – Finance Act, 1914, Section 14.

In 1914, on the occasion of the marriage of the deceased, some freehold and leasehold property was settled so that the deceased was entitled to a rent-charge of £200 a year, and then to the deceased's husband for life, and afterwards so that the deceased should have a larger rent-charge, and then to other uses, the last of which was for the husband in fee simple. The deceased's husband died in 1916, having left his residuary estate to the deceased, and included in his residue was the ultimate trust under the 1914 settlement. Estate duty was paid on his death in respect of all the property then comprised in that settlement subject to a deduction of a notional slice to produce the £200 a year. In 1923, the deceased made a voluntary settlement, and thereunder she received for life all the income of the property settled in 1914.

On the death of the deceased in 1957 the plaintiff claimed that no estate duty was payable in respect of the settled property, as the duty had been paid on that property on the occasion of her husband's death in 1916. It was contended that what passed on the death of the deceased in 1957 was the property within the 1914 settlement. It was contended on behalf of the Inland Revenue that what passed on her death was her interest in the 1914 settlement; and, alter-

natively, that at any rate a 'slice' of the settled property representing the £200 a year was not exempt on the death of the deceased because duty had not been paid on it on her husband's death in 1916.

Held: the settled property was exempt from estate duty on the deceased's death in 1957; but a 'slice' of that property representing the £200 was not exempt.

Forest Side Properties (Chingford) Ltd v. Pearce

In the Court of Appeal – June 16th, 1961

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice HARMAN and Lord Justice DONOVAN)

Income tax – Acquisition and disposal of leases of flats – Minute that properties be held as investments – Whether trade of property-dealing – Income Tax Act, 1952, Schedule D.

The appellant company was incorporated on July 23rd, 1951, and its object generally was to deal with real estate. The two shareholders and directors were builders. On October 30th, 1951, the company purchased from them the leases of twenty-four maisonnettes and one house for £9,870. At that time many of the properties were under requisition, and others were subject to the Rent Acts. On the same day the directors resolved that these properties should be held as investments. In November 1953 one maisonnette fell empty, and it was immediately re-let. Between 1955 and 1957 fourteen maisonnettes and flats were sold for a total sum of about £20,000. Four of these sales were to sitting tenants; and in four other cases sums were paid to sitting tenants to move out, so that the properties could be sold; and the other six properties were sold with vacant possession. Heavy expenditure was incurred on the properties

CORRESPONDENCE

Pressure on space in this week's issue unfortunately prevents the inclusion of letters to the Editor. Publication of readers' letters will be resumed next week.

between 1955 and 1957 in making good war damage. Money obtained by the sales was lent to the shareholder-directors free of interest.

It was contended on behalf of the appellant that, as shown by the resolution of October 30th, 1951, and by other evidence, the company was, during the material years, a property-holding company. It was

contended on behalf of the respondent that the company carried on a property-dealing business. The General Commissioners decided in favour of the respondent.

Held (affirming the decision of Mr Justice Danckwerts): the General Commissioners' decision was correct.

AUTOMATION - MEN AND MONEY

Harrogate Conference on the Social and Economic Effects of Automation

Viscount Hailsham, Minister for Science, opened the first British conference on the social and economic effects of automation which was held at Harrogate from Tuesday to Friday of last week. Eight of the member organizations of B.C.A.C. (British Conference on Automation and Computation), including The Institute of Cost and Works Accountants, formed the sponsoring committee, and the conference was under the chairmanship of Sir Walter Puckey.

The subjects examined by the conference included not only the effects of automation within the company itself, but also much wider issues such as the effects on the national economy, industrial relations from both the trade union and management angle, national training and educational policies, wages structure, standards of living and economic forecasting for industry as a whole.

More Effective Forecasting

The need for development plans to be based on more than 'hunches' and 'haphazard decisions' was stressed by Mr E. F. L. Brech, a management consultant.

Mr Brech, in his provocative paper, suggested that if forecasting was to be effective as a guide to management decision, the assessment of the profitability needed to be conducted with far greater skill and penetration than had customarily been the case.

In his view, it would not be unfair to ask that the average accountant employed in industry and commerce should be more ready to improve his techniques of cost analysis and cost determination so as to afford more reliable profit guidance to management decision 'even if this entails some reappraisal of accounting principles hitherto regarded as sacrosanct'. He continued:

'In the past few years there has been considerable progress in the development of statistical techniques and applied mathematics as an aid to management information, for example, operation research and linear programming, or evaluation along lines of simulation through mathematical models.

'Simpler means can be found in the form of sampling (supported by probability analysis) and other calculations.

'The objective being sought by this resort to more sophisticated techniques is a closer and more realistic approximation of the forecast assessment of profitability by including in the calculations some evaluation of the assumptions on which these decisions have been based, and thereby a test of the assumptions themselves, with particular reference to the cost data used in forecasting.'

In this way, Mr Brech argued, forecasting became a *real* tool of management. The manager had had made

a forecast evaluation of his decisions and he thus knew where he was before action started. Later he could check back on the effectiveness both of his assumptions and of his decision.

If this approach was used recurrently when the plans were put into action, the manager was better able to adjust his decisions in line with events, so that the forecasting was currently being corrected by 'the pressure of reality'.

'The idea is not to catch the manager out,' Mr Brech declared, 'but rather to assist him at all times to make the best possible decisions. Approach by simulation, or what are sometimes popularly called "business games", can warn the manager of pitfalls ahead of him, where these may occur, and when they can be expected; in this way he is forewarned against failures.'

Mr Brech admitted that a great deal of detailed statistical and mathematical working might be entailed and that this was an area in which automated data processing could come very much into its own. However, a major difficulty lay in the extent of the programme-writing that might have to be undertaken. There was, here, a fruitful area for 'research' to be conducted jointly by the systems analysts, the accountants, the economists and the marketing men to find avenues of forecasting and simulation that could be economical in computer programmes.

Economic Implications of Automation

In a review of the economic implications of automation and the effects on the national economy Mr J. A. C. Brown, senior research officer of the department of applied economics at Cambridge, submitted that economic forecasting in the past had too often taken the form of crystal-ball gazing.

What was needed, rather than a simple forecast, was a 'viable picture' of the economy five to ten years hence based on assumptions which tended towards optimism rather than pessimism or even neutrality.

From a technical point of view the basic tools required for this type of forecasting were available, he said. But they required sharpening in use.

In his view, the economic problems of automation grouped themselves under three main headings. The first was the problem of investment in plant and machinery. There was no doubt, Mr Brown maintained, that automated processes were highly capital intensive in this respect, and placed great demands on the producers of very specialized equipment.

The second was the problem of adapting and

improving the structural skill of the labour forces to meet the demands of the new equipment; and the third was that of forecasting changes in the industrial structure as a whole so that demands could be foreseen in advance and scarce investment resources and manpower were not wastefully misallocated.

Forecasting was also dealt with by Mr E. F. Shumacher, economic adviser to the National Coal Board. He argued that special studies could show man where he appeared to be going – but in his view the best decisions would still be based on the judgments of mature non-electronic brains possessed by men who had looked steadily and calmly and seen the whole. In his opinion, 'Stop, look and listen' was a better motto than 'look it up in the forecasts'.

Automation and Product Variety

In a paper seeking to analyse the factors to be considered in relating automation to optimum product variety, Mr B. D. Tait, of Cooper Brothers & Co, suggested many of the methods which might be used. But there were difficulties, he said, because 'automation' could not be precisely defined and the same applied to 'product'.

It seemed to him inevitable that each management must make its own assessment of product variety by working from fundamentals. Moreover, because the fundamentals within one company might alter as time went by, the assessment of optimum product variety could never be more than a temporary guide. It had to be reassessed from time to time.

The view that greater use should be made of known techniques of assessing profitability of automation projects was put forward by Dr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., F.C.I.S., F.B.I.M. He suggested also that more attention should be given to market research to enable future demand to be predicted with greater chances of accuracy. Cost accounting records, he said, should facilitate the assessment of projects and the verification (or otherwise) that the expected results had been achieved.

Internal comparisons on the speed of automation led Mr P. C. Millson, economic analyst of I.B.M. (United Kingdom) Ltd, to review the world-wide economic background of automation and the extent of automation and usage of electronic data processing equipment in various countries.

He pointed out that the increasing complexity of the modern industrial economy was closely associated with the development of automation. Data processing equipment, he said, would be used increasingly to retain administrative control of increasingly complex activities whilst serving to keep within bounds the recent rapid increase in the proportion of administrative and other indirect workers to the direct labour force.

Labour Problems

Labour and wages problems were naturally enough well to the fore. Mr William J. Carron, president of the Amalgamated Engineering Union, told the conference that introduction of automation would be received by the workpeople 'in a manner which will largely be conditioned by the attitude of the management concerned'.

If management was blatantly insistent upon gathering unto itself all the best of both worlds then he could visualize, quite easily, strenuous and prolonged active

opposition from the workpeople. This would not be to the introduction of the system but to the adverse effects that, in those circumstances, were calculated as something to be borne entirely and accepted unconditionally by the worker alone.

He made it clear, however, that taking the 'fullest possible cognizance' of the nature and basic principles of automation, no community could conscientiously adopt a mental attitude that was in opposition to the setting up, or adoption, of a principle which was designed to cancel out the major burden of human labour in productive processes.

'To oppose automation, purely in the sense of it being an advanced method of productivity, would be at once decadent, retrogressive and utterly stupid', he declared.

Mr J. L. Jones, regional secretary of the Transport and General Workers Union, argued for simplified wage structures based on high time rates. The new techniques, he said, threw up new skills or required the exercise of new responsibilities by workpeople which ought to be accommodated in the field of collective bargaining.

'Why', he asked, 'must so many employers refuse to face up to the eventual recognition that the British working man, striving his best to make new equipment work efficiently, wants to be sure of a good solid wage packet *every week*, a payment which is clear and straightforward and which does not require to be deciphered by a mathematician?'

Generous compensation for workers displaced by automation was a definite requirement, said Mr H. E. Matthews, national industrial officer of the National Union of General and Municipal Workers. Inevitably, he declared, the unions were likely to increase their pressure both with individual concerns and through their national agreements as automation entered more and more into daily experience.

Standard Salaries and Wages

Mr Hugh Clegg, fellow of Nuffield College, Oxford, dealt at some length with the effect of automation on wages and working hours. He suggested, as a possibility, that over the next two decades production workers would decline in numbers and importance relative to skilled workers and technicians and that this might lead to a shift in emphasis from payment by results to standard salaries and wages for qualified workers. On the other hand, it was quite possible that the present wage structure would be maintained and that the earnings of the ever-diminishing number of production workers would continue to set the pace for the whole labour market.

Such a situation would be absurd, Mr Clegg observed, but our system of industrial relations was accustomed to absurdities so long as they were supported by long usage.

Delegates were reminded by Mr A. Part, deputy secretary to the Ministry of Education, that Britain's population was increasing more slowly than that of several of its most important trade competitors.

'By the year 2000', he declared, 'we may hardly survive as a major power unless we make the best and most commercially profitable use of our brains.'

All this pointed to the need not only for a constantly increasing productivity but for an unceasing search for new products that companies could export with success.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ANNUAL SERVICE

The annual service of The Institute of Chartered Accountants in England and Wales was held at the Church of St Margaret, Lothbury, London, EC2, last Wednesday. The President and members of the Council, together with a good number of other members of the Institute attended.

The service, conducted by the Rector, the Rev. A. John Drewett, M.A., B.Sc., commenced with the hymn 'Glorious things of thee are spoken'. After the singing of Psalm 42, the lesson from 1 Corinthians, chapter 13, was read by the President, Mr P. F. Granger, F.C.A.

The other hymns were 'Soldiers of Christ, arise' and 'God of mercy, God of grace'. The collection for the Chartered Accountants' Benevolent Association amounted to £47 13s 1d.

The Rector delivered the following sermon.

The Sermon

They daily say unto me, 'Where is now thy God?' (Psalm xlii, 3)

It is not difficult to imagine the feelings of the psalmist; for who of us has not been in the same predicament. He was in deep distress of soul, his faith was slipping away and his grasp of the underlying realities of life was weakening. The causes of his condition are unknown to us. He appears to have been an exile, cut off from his homeland and from the Temple in Jerusalem. If this was his situation, it would explain why he was the subject of the scorn and derision of those around him. He felt unwanted, isolated and afraid with no friend in the world. And it was precisely at this time, when he was most in need of the comfort of his religion, that God himself seemed to have deserted him. To the taunting, mocking query of his enemies he had no answer. When men said continually to him, 'Where is now your God?', he could do nothing but burst into tears.

'Where is now thy God?' This is no unnecessary or impious question to ask. It is extremely salutary that those who believe in God should be expected to know where he is to be found and what he is doing in the world. It is even more important that they should be able to give some account of his nature, lest others should believe in false gods and so make shipwreck of their lives. It is of course true that some who ask this question do not honestly desire an answer. They are the cynics and unbelievers of the world who ask the question with a sneer and have already made up their minds that there is no rational basis for religious faith. But there are others who are genuinely perplexed and who, whether they know it consciously or not, are thirsting for the living God. They look upon the world of human suffering and upon the masses of men, women and children who are the victims of war, revolution, disease and famine and they want to know how all this can be reconciled with a God who cares.

Christians cannot ignore this challenge, for the dilemma is a real one. If God is all-powerful, why does he allow such things to happen? How can these things be squared with belief in a God who is love? We must

begin by asking ourselves whether the God in whom we believe is a figment of our own imagination or a product of our wishful thinking, or whether he is the true God, the ground of all being, the Creator and Redeemer of the world. This is the question we have to face when we are in the situation of the psalmist.

There are many people whose religion is still immature and contains elements which they have outgrown in every other department of their lives. Spiritual immaturity of this kind usually finds expression in an attempt to bargain with God. 'If I am a good boy and do what is right, then I expect that you will protect me from the more unpleasant experiences which befall human kind.' For the spiritually immature, God is the director of a cosmic insurance company which covers all risks; they are shocked and perplexed when things happen to them which they know full well happen to other people.

It is precisely at the time of greatest need that this kind of religion fails and is exposed for the superstition which it really is. A man who has not outgrown this childish conception of his relationship to God finds that in the time of trouble his God is no longer there. His experience contradicts all that he has hitherto believed and his religion evaporates into bitter disillusionment. 'God has let me down after all that I have done to please him.' Henceforth he will either have to find a new and more mature faith or he will find himself with the mockers uttering their monotonous refrain, 'Where is now thy God?'

A Mature Religion

A mature religion will face all the facts of life squarely, including the germs and the natural catastrophes, the spiritual dereliction and the wars and revolutions. It will seek for an all-embracing goodness which finds some constructive place in the scheme of things for all the ills to which flesh is heir. It will recognize the fact that if freedom is the greatest good it has to be bought with a price and the price is often suffering and death. The mature man knows that he can grow in wisdom and stature only if he is free to make responsible choices and that this very freedom includes the possibility of making mistakes and taking the consequences. A great deal of the suffering of the world is due to human selfishness and ignorance, and God can only be held 'responsible' for this in the sense that he has made us free, and so free to do wrong and to bring disaster upon ourselves and others.

It was something of this which St Paul had in mind when he said that we must work out our own salvation with fear and trembling. Men are called upon to make agonizing decisions, to step out in the dark not knowing the consequences of their choices. Nothing is cut and dried for us in life. Each day brings its own problems and the right thing to do in one situation may be quite wrong in another. But a world without freedom would have no purpose and no worth, for it would be a closed system in which nothing ever happened of any consequence. It would be like a vast machine grinding away and producing nothing.

But man is not only born to a life of freedom, he is also born a member of a community. He grows up in a family, in a town and in a country. As he matures, he realizes that his freedom depends to a large extent upon the wills of other people: of parents, schoolmasters, employers and legislators. It is a part of the process of growing up that we learn to accommodate ourselves to others, we learn to live together. The man who does not develop to maturity is a misfit in society and often finds his freedom curtailed because society cannot tolerate his misuse of it. A recent writer has said that his study of criminals has led him to believe that the main cause of crime is the failure to grow up emotionally. The criminal is often like a child who still has to learn that he cannot have everything that he wants and that the rights of others have to be taken into account.

This life of freedom would be a frightening thing from which many would run away were it not for the fact that God helps us to use it aright. This he has done, so we Christians believe, in showing us the perfect life of responsible freedom as it was lived by Jesus Christ. That Jesus was the freest man who ever lived is seen in the pages of the Gospels, but his freedom was the result of his complete obedience to the will of God. Because he lived out the divine purpose, he was free from the frustrations of self-will; because he was prepared to die for the Kingdom of Righteous-

ness, he was given victory over suffering and death. The mockers and cynics were there, even at the foot of the Cross: 'He saved others; let him save himself'. 'Art thou not the Christ? Save thyself and us'. But before the day was out some of the mockers had seen the truth and were saved. Jesus had turned the edge of suffering and death and had made them into instruments of good. The wrath of man had been transmuted into the glory of God.

God has also given us his Spirit. The answer to the question, 'Where is now thy God?' is that he is around us and within us. An example is of no avail if we lack the power to follow it. God is the still small voice of conscience; God is that power within us which enables us to overcome our selfish desires and to serve the highest that we know. God, if he be the true God and not the projection of our own wills, does not desert us in time of trouble or perplexity. In these times, he is at work bringing good out of evil situations, helping us to become more mature persons by our passage through the valleys of doubt and suffering. Only those who have trod this path can help others and that, after all, is the highest end of man's life. God was in Christ reconciling the world unto himself. 'Where is now thy God?' Wherever the work of reconciliation, of compassion, of unselfish service is being done, there is the divine Love and Wisdom directing operations.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

MEETINGS OF THE COUNCIL

Special and ordinary meetings of the Council of The Institute of Chartered Accountants in Ireland were held in Belfast on Thursday, June 22nd.

Attendance

The *President*, Mr A. E. Dawson, was in the chair, and there were also present:

Messrs R. E. McClure, *Vice-President*, John Bacon, A. S. Boyd, G. A. P. Bryan, G. E. Cameron, Frank Cleland, J. F. Dempsey, N. V. Hogan, G. F. Klingner, John Love, R. J. Neely, R. P. F. Olden, H. W. Robinson and D. McC. Watson, with the *Secretary* and the *Joint Secretary and Treasurer* in attendance.

Apologies for absence were submitted from Messrs H. E. A. Addy, M. M. Connor, James Graham and James Walker.

Resignation from Council

The Council accepted with very great regret the resignation of Mr Herbert Edward Alexander Addy, F.C.A., of Belfast, who was elected to the Council in 1940 and who was President of the Institute during the years 1951-52 and 1952-53.

It was unanimously resolved to place on record the Council's appreciation of Mr Addy's long and valuable service both to the Institute and to the profession in Ireland.

Deaths

The deaths of the following members were reported and noted with regret:

Mr P. J. Davey, Associate (retired), Dublin.
Mr Edgar McKee, Fellow, Belfast.
Mr R. H. Shackleton, Associate, Athy.

Fellowship

Mr Gerard Noel Power, A.C.A., Limerick, was elected a Fellow of the Institute.

Practice

The following members were admitted to practice:

Mr Francis Fenton Carthy, Dublin.
Mr Edward James Hayes, Dublin.
Mr Gerrard Bartholomew Kelly, Burlington, Ontario.
Mr William Patrick McElroy, Dublin.

Membership

An application from a former member for re-admission to Institute membership was refused.

Committees

Reports were received from the Finance and General Purposes, Examination and Policy Committees.

The nominations of the district societies of representatives on the new Industrial and Administrative Members' Consultative Committee were accepted as follows:

Belfast: Messrs R. N. Crawford, A.C.A., H. C. Meharg, A.C.A.
Dublin: Messrs J. H. Sedgwick, A.C.A., F. C. W. Winkelmann, A.C.A.
Munster: Mr Edmond Jennings, A.C.A.

Examinations

The results of the Preliminary and Final examinations of the Institute and of Parts II and IV of the new Institute examination held in May 1961 were reported.

The names of the successful candidates are published elsewhere in this issue.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS ANNAN, IMPEY, MORRISH & Co, Chartered Accountants, of 21 Ironmonger Lane, London, EC2, announce that they have admitted Mr JOHN W. HILLS, M.A., A.C.A., to partnership as from July 1st, 1961. Mr HILLS has been on the staff of the firm since its inception.

MESSRS BOTTOMLEY & SMITH, Chartered Accountants, of Halifax Permanent Chambers, Keighley, announce the retirement on June 30th, 1961, of their senior partner, Mr W. A. HEATON, F.C.A., after an association with the firm of nearly fifty years. The practice will be carried on by the remaining partners, Messrs SIDNEY WILSON, F.C.A., and J. S. HEATON, F.C.A.

MESSRS CASSLETON ELLIOTT & Co, of Nigeria, Ghana and Sierra Leone, announce that Messrs PEAT, MARWICK, MITCHELL & Co have become associated with them and that the businesses in Nigeria and Sierra Leone will, as from July 1st, 1961, be carried on under the name of PEAT, MARWICK, CASSLETON ELLIOTT & Co. The business in Ghana will continue to be carried on under the name of CASSLETON ELLIOTT & Co.

MESSRS FITZPATRICK, GRAHAM & Co, Chartered Accountants, announce that Mr JOSEPH MAXWELL MCGUFFIE, C.A., and Mr JOHN BANNISTER JONES, B.COM., A.C.A., who have been members of the staff for some time, have been taken into their Manchester partnership as from July 1st, 1961.

MESSRS GODDARD, MELLERSH & LEPINE, Chartered Accountants, of 833 Salisbury House, London Wall, London, EC2, announce that, with effect from July 1st, 1961, they are being joined in partnership by Mr ROBERT ALEXANDER CECIL NORRIS-JONES, F.C.A., who has been in practice in the City for the past nine years. The name of the firm will remain unchanged. On the same date a branch office is being opened at 153 High Street, Guildford, Surrey. Telephone: Guildford 2377.

MESSRS HARMOOD BANNER, LEWIS & MOUNSEY, Chartered Accountants, announce that as from July 1st, 1961, they have taken into partnership Mr CHARLES RICHARD PLUMMER, C.A. Mr PLUMMER will be at the London office of the firm at Dashwood House, 69 Old Broad Street, London, EC2.

MESSRS A. J. HARPER & Co, Chartered Accountants, of Finsbury Court, Finsbury Pavement, London, EC2, announce that they have admitted into partnership Mr COLIN F. G. BENNIGSEN, A.C.A., as at July 1st, 1961. The style of the firm remains unchanged.

MESSRS KEMP, CHATTERIS & Co, Chartered Accountants, of St Swithin's House, London, EC4, announce that Mr WALTER TRAFFORD WILLIAMS, F.C.A., has retired from the partnership as from June 30th, 1961.

MESSRS PRICE WATERHOUSE & Co (European firms) announce the retirement on June 30th, 1961, of Mr HAROLD EDWARDS and the admission to partnership of the following members of their staff with effect from July 1st, 1961: Messrs D. L. BURNS, C. B. JAMES, I. N. S. LATHOM-SHARP and F. H. VOGT.

MESSRS E. J. RICHES & SON, Chartered Accountants, of 4, 6 and 8, Cathedral Street, Norwich, announce that they have admitted Mr DOUGLAS STEWART, C.A., into partnership as from July 3rd, 1961. Mr STEWART has been on their staff for a number of years. The style of the firm remains unchanged.

MESSRS WHITEHILL MARSH JACKSON & Co, Chartered Accountants, of Warwick House, Warwick Court, Gray's Inn, London, WC1, and 30 Waterloo Street, Birmingham, announce that as from July 1st, 1961, they have admitted into partnership Mr JOHN SMURTHWAITE, A.C.A., C.A.(CANADA).

Appointments

Mr H. T. Nicholson, F.C.A., and Mr C. G. Brown, F.C.A., have joined the board of Blindells Ltd.

Mr K. M. Townsend, F.C.A., chief accountant of Geigy (Holdings) Ltd, has been appointed an additional director of Ashburton Chemical Works Ltd, one of the Geigy Group of companies.

Mr A. S. Chapman, F.C.A., has been appointed secretary of Morgan Grenfell & Co Ltd.

Mr J. E. Pardoe, F.C.A., has been appointed assistant area general manager in the Lothians Area of the Scottish Division of the National Coal Board.

Mr William A. Nicol, C.A., F.C.C.S., has been appointed a member of the Birmingham Local Board of Barclays Bank Ltd.

Mr J. H. E. Piper, A.I.M.T.A., at present borough treasurer and deputy town clerk at Liskeard, Cornwall, has been appointed treasurer to Clacton Urban District Council.

OBITUARY

Sir William Crawford Currie, G.B.E., B.A., C.A.

It is with much regret that we record the death last Monday at the age of 77 of Sir William Currie, G.B.E., B.A., C.A., chairman of the Peninsular & Oriental Steam Navigation Company and the British India Steam Navigation Company from 1938-60, and an outstanding personality in British shipping for nearly thirty years.

Educated at Glasgow Academy and Fettes, and Trinity College, Cambridge (where he gained a Rugby blue), he was apprenticed with the firm of David Strathie & Co, Chartered Accountants, of Glasgow, in 1906, and was admitted a member of the former

JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SW1

Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Institute of Accountants and Actuaries in Glasgow in 1910. Immediately after qualifying he left for Calcutta – where he had spent his early boyhood – to become an assistant in the firm of Mackinnon Mackenzie & Co, the managing agents of the British India Steam Navigation Company. Eight years later he became a partner in the firm and in 1922 was appointed senior managing partner. In India he took a prominent part in public life, being Sheriff of Calcutta in 1921–22, a member of the Bengal Legislative Council for several years, and President of both the Bengal Chamber of Commerce and the Associated Chamber of Commerce of India, Burma and Ceylon. In 1925 he was appointed a member of the Council of State for India and received his knighthood in that year.

Sir William returned to the United Kingdom in 1926 to become a partner in Gray, Dawes & Co, the London agents of the British India Steam Navigation Company, and six years later was elected a director of P. & O. and later a managing director. He became chairman of the company in 1938.

During the Second World War, Sir William served as a member of the Advisory Council of the Ministry of War Transport, acting as director of the Liner Division of the Ministry from 1942 until 1945.

He served on many committees and held numerous offices outside his business life, being a former President of the Institute of Marine Engineers, a member of the Council of King George's Fund for Sailors, chairman of the Honorary Committee of Management of the training ship *Worcester*, and a trustee of the National Maritime Museum. He was created a G.B.E. in 1947, and in 1953 was appointed a Commander of the Legion of Honour of France for his services to international shipping.

At a presentation ceremony in June 1958, Sir William received from Sir John Braithwaite, then Chairman of the London Stock Exchange, *The Accountant Annual Award* for his company's annual report, which was judged the best of the large company reports in that year.

Mr Harold Walters, F.C.A.

We have learned with regret of the death on June 30th in his ninetieth year of Mr Harold Walters, F.C.A. Until the time of his retirement in 1952, he was senior partner in the firm of Morrish, Walters & Co, Chartered Accountants, of London.

Educated at University College School, Mr Walters was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1893. In 1896 he became a partner in his firm and continued in practice until his retirement.

All his professional life was spent in the City of London, and he held a personal appointment as auditor to the Abbey Road (now Abbey National) Building Society continuously from 1896 until 1950, when he

was succeeded by his son, Mr R. T. Walters, F.C.A.

He was chairman and managing director of the Buff Book Co Ltd, which preceded the present Classified Telephone Directory, and also chairman of Fanfold Ltd.

As a young man he was a very keen player of rugby football. He served in the First World War with a Commission on the General List, and was a member of the Conservative and Gresham Clubs, being chairman of the latter in 1922.

His many friends will remember his strength of character as well as his sense of humour, and, although he had retired from business for some eight years, his loss will be widely felt.

COMPANY INQUIRY

Chartered Accountant appointed Inspector

The Board of Trade, in pursuance of the powers conferred on them by Section 165 (b) of the Companies Act, 1948, have appointed Mr Arnold Yarworth Green, F.C.A., as Inspector to investigate the affairs of Langkon North Borneo Rubber Ltd, Selama (Malaya) Rubber Estates Ltd and Jong-Landor Ltd.

DOUBLE TAXATION: SINGAPORE

As a result of notice of termination given by the Government of the State of Singapore, the agreement for the avoidance of double taxation in respect of taxes on income between Singapore and the United Kingdom, which came into force in 1949, will cease to have effect from next year.

The Government of Singapore have proposed that there should be negotiations for a fresh double taxation agreement in place of the present arrangements.

IN PARLIAMENT

Income Tax

Mr SYDNEY IRVING asked the Chancellor of the Exchequer how many persons have incomes too low to be eligible for tax at the present rates; how many persons are eligible to pay tax at each of the rates up to the standard rate; and how many pay surtax.

Sir E. BOYLE: The number of incomes below the effective exemption limit of £180 is not known. The estimated numbers of incomes above £180 in 1960–61 are as follows:

	Thousands
Not liable	2,500
Liable at 1s 9d	2,500
Liable at 4s 3d	7,000
Liable at 6s 3d	5,400
Liable at 7s 9d	4,600
Liable to surtax	450

The joint income of a married couple is counted as one unit.

Hansard, June 28th, 1961. Written Answers. Col. 48.

MOTOR — FIRE — CONSEQUENTIAL LOSS

MOTOR UNION INSURANCE COMPANY **LTD**

10 ST JAMES'S STREET, LONDON, SW1

**BRISTOL AND WEST OF ENGLAND SOCIETY
OF CHARTERED ACCOUNTANTS****New President Elected**

Mr W. E. Dewdney, F.C.A., has been elected President of the Bristol and West of England Society of Chartered Accountants for 1960-61; he is a partner in the firms of Hudson Smith, Briggs & Co, of Bristol and London, and of Stanley Holmes & Co, of Bristol.

Mr Dewdney was articled to Mr Percival P. Richards, of Bristol, and was admitted an Associate of the Institute in 1932 having been awarded honours in both the Intermediate and Final examinations. From 1932 to 1945 he was a member of the London staff of Messrs Price Waterhouse & Co, and joined his present firms in 1945.

For twelve years Mr Dewdney was Hon. County Treasurer of the Bristol Boy Scouts' Association and was Secretary of the Queen Victoria Jubilee Convalescent Home until it was nationalized to form part of the Bristol United Hospitals.

WAR DAMAGE COMMISSION**Change of Address**

The headquarters of the War Damage Commission has been transferred from 6 Carlton House Terrace, SW1, to Eagle House, 90-96 Cannon Street, London, EC4. Telephone: Mincing Lane 2000. The City office of the Commission will be transferred to the new address on July 17th.

IRISH INSTITUTE'S GOLFING SOCIETY**Annual Meeting**

At the annual meeting of the Institute of Chartered Accountants in Ireland Golfing Society held at the County Sligo Golf Club, Rosses Point, the results of the competitions were as follows:

SMYLIE CUP (BOGEY)

- 1st, W. H. O'Donnell (14), all square.
2nd, M. H. Stewart (8), 1 down.
3rd, J. S. Graham (12), 2 down (after a tie).

QUIN CUP (STABLEFORD)

- 1st, A. G. Geary (4), 36½ points.
2nd, J. G. Lyons (18), 34½ points.
3rd, M. H. Stewart (8), 33 points.

The Aggregate Trophy was won by M. H. Stewart, while the North v. South Cup was won by South.

At the business meeting Mr S. H. Polden, F.C.A., was elected captain for the ensuing year and it was decided that the 1962 meeting be held at Rosses Point during the week-end May 26th to 28th.

After lunch on the final day, the captain expressed the sincere gratitude of the Society to the County Sligo Golf Club and welcomed the Captain of the Club, Mr R. Cecil Ewing, the Irish International and Walker Cup player, and the secretary, Mr Rex Buck. This was the Society's ninth successive year at Rosses Point and the members expressed their appreciation of the warm welcome always extended to them by the County Sligo Club.

LONDON STUDENTS' COLUMN**News from the Chartered Accountant Students' Committee****by A Student Member**

The Oxford week-end course this year will be at Balliol and Trinity Colleges from Thursday to Sunday, September 21st to 24th. The lectures and discussions are, as usual, on subjects of professional and personal interest to most articled clerks who are well on the way to the end of their articles. They include 'Practice or industry?', 'The Parker Report', 'Management accounting'; other topics will be the future Companies Act, and the European Common Market situation. This is one of the most popular of the Society's activities and applications to attend must be received by July 31st.

Committee Decisions

If there is a wind of change blowing through Africa, a tidal wave of change is erupting in the calm waters of the committee. At the annual general meeting of the Society, it was decided that minutes of committee meetings should be made available for inspection at the library. This has now been followed by the committee voting to make its discussions and decisions public property, and now any committee member is free to discuss with anyone the 'sayings and doings' of the committee.

The magazine subcommittee met recently, and it was agreed that they should 'carry on'. It is hoped that the first issue of the magazine will be out in October.

The committee, deciding that the 'personal touch' is the best way of creating interest in its activities, have hit on the idea of its members telephoning some

six articled clerks each, and informing them of its future activities. It is hoped that the experiment will be rewarding.

Students' Centre

The committee is still exploring the possibilities of a permanent Students' Society Centre, but in the meantime the social clubs, unofficially supported by most committee members, wish to obtain the use of a club in the West End. *This is contingent upon 500 students wishing to join.*

Other activities on a more academic plane included the President's 'Tea' which was well attended and most enjoyable, due perhaps to the fact that sherry was substituted for tea!

The number of students who attended Mr Hooper's summing up of the mechanized accounting course was twenty-nine, while forty-six students attended a visit to the Royal Mint in an effort to find out how fortunes are made. No prizes have been awarded this year for the spring session of the Debating Course, as the standard of speaking was poor.

The '59 Club organized a week-end in Paris after the examinations. The Kingsway Club held a dinner and the Taverners their monthly meeting.

The membership of the Society, which includes all members who are not doing their National Service, is now 9,064, which compares well with 7,946, at this time last year.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Results of Examinations held in May 1961

PART V

Of the 146 candidates who sat for Part V of the Institute's examination on May 16th, 17th, 18th and 19th, 1961, the under-noted 75 (51.37 per cent) candidates passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

The Institute's Gold Medal
(for the candidate whose performance over Parts IV and V is the most meritorious)

and The Institute's Prize
(for the candidate whose performance in Part V is the most meritorious)

Dover, J. H. (Craston Thomson & Allison), Glasgow.

The John Munn Ross Prize
(for the candidate whose performance in Paper I of Part V is the most meritorious)

Simpson, R. J. (Norman J. Bird & Co), Dundee.

The J. C. Burleigh Prize
(for the successful London candidate whose performance in Part V is the most (and sufficiently) meritorious)

Laurel, D. A. (Smedley, Rule & Co), London.
Sinclair, I. R. (Thomson McLintock & Co), London.

The Guthrie Prize
(for the successful woman candidate whose performance in Part V is the most (and sufficiently) meritorious)

Lorimer, (Miss) J. W. (Millar, Thomson & Dunlop), Glasgow.

Adam, J. (Norman MacKinnon & Co), Ayr.
Andrews, I. R. (Mackay, Irons & Co), Dundee.

Bell, J. G. (Bower & Smith), Aberdeen.
Brown, J. W. C. (Russ, Ferguson & MacLennan), Glasgow.

Campbell, A. D. (Thomson McLintock & Co), Glasgow.
Candlish, B. McK. (Martin Currie & Scott), Edinburgh.
Carmichael, W. A. (Brodie, Burns & Anderson), Glasgow.
Cooper, J. A. (Bower & Smith), Aberdeen.
Cowan, R. K. (Boyack, Whitelaw & Aitchison), Edinburgh.
Craig, J. D. (Charles Burrows & Co), Edinburgh.
Cruickshank, J. P. (T. C. Garden & Co), Edinburgh.
Cunningham, J. B. (Moody Stuart & Robertson), Dundee.

Dawson, J. R. (J. Douglas Henderson & Co), Edinburgh.
Dibble, T. (Reid & Mair), Glasgow.
Docherty, T. (Leo Higney & Co), Glasgow.
Donaldson, J. C. (Mitchell & Smith), Glasgow.
Dover, J. H. (Craston Thomson & Allison), Glasgow.
Drummond, W. (Carter, Greig & Co), Edinburgh.
Duncan, W. M. C. (J. M. Wyllie & Co), Motherwell.

Factor, L. G. (Chas. Leigh Brown & Son), Glasgow.
Few, D. H. (Thomson McLintock & Co), London.

Glass, J. A. (John M. Watson), Glasgow.
Grant, D. MacD. G. (Thomson McLintock & Co), Glasgow.
Gray, E. J. (Cooper Brothers & Co), Glasgow.

Hamilton, C. H. (Lindsay, Jamieson & Haldane), Edinburgh.
Heiton, R. F. (W. A. Wighton & Crawford), Edinburgh.
Hill, L. S. (Peacock & Henry), Glasgow.
Hollock, E. J. (Turner, Hutton & Patrick), Glasgow.
Houston, J. B. (Kerr, MacLeod & Macfarlan), Glasgow.
Hunter, A. McL. (John M. Taylor & Co), Glasgow.

Jory, R. P. D. (Thomson McLintock & Co), London.

Kerr, W. I. (Robert G. Morton & Son), Edinburgh.
Key, B. S. (Moody Stuart & Robertson), Dundee.
Kinloch, D. J. (Chrystal, McIntyre & Co), Glasgow.
Kirkpatrick, J. C. (Wylie & Bisset), Glasgow.
Kobine, N. J. G. (R. C. Thomson & Murdoch), Dundee.

Laurel, D. A. (Smedley, Rule & Co), London.
Lo, E. K. C. (R. C. Thomson & Murdoch), Dundee.

Lorimer, (Miss) J. W. (Millar, Thomson & Dunlop), Glasgow.

MacCallum, M. (Turner, Hutton & Patrick), Glasgow.
Mackay, R. A. J. (A. & J. Robertson), Edinburgh.
MacKenzie, J. D. C. (Kerr, MacLeod & Macfarlan), Glasgow.
MacLaren, G. M. (Thomson McLintock & Co), Glasgow.
Macneill, D. I. (Welsh, Walker & Macpherson), Greenock.
Macpherson, I. (Moody Stuart & Robertson), Dundee.
Miller, J. M. (Graham, Smart & Annan), Edinburgh.
Miller, W. S. (Richard Brown & Co), Edinburgh.
Moir, G. G. (A. & J. Robertson), Edinburgh.

Neave, C. P. (Jas. A. Jeffrey & Co), Aberdeen.
Neilson, J. (Wallace & Somerville), Edinburgh.

Orr, R. I. (Galbraith, Dunlop & Co), Glasgow.

Pearson, J. D. I. (J. Douglas Henderson & Co), Edinburgh.
Pittman, P. (Thomson McLintock & Co), Glasgow.
Porter, J. B. (Peat, Marwick, Mitchell & Co), Newcastle upon Tyne.
Pringle, N. J. (A. T. Niven & Co), Edinburgh.

Rait, A. P. (McClelland, Moores & Co), Glasgow.
Robertson, G. H. (John M. Geoghegan & Co), Edinburgh.
Robertson, J. J. B. (Paterson & Benzie), Glasgow.
Ross, M. F. (James Milne & Co), Aberdeen.

Sandford, K. E. (Paterson & Benzie), Glasgow.
Shaw, R. I. (Wilson, Stirling & Co), Glasgow.
Shore, J. (Russ, Ferguson & MacLennan), Glasgow.
Simpson, R. J. (Norman J. Bird & Co), Dundee.
Sinclair, I. R. (Thomson McLintock & Co), London.
Sinclair, W. J. (Jardine, Dunlop & Anderson), Glasgow.
Sinclair, W. R. (Nairn, Bowes & Craig), Glasgow.
Smart, J. E. (McClelland, Moores & Co), Glasgow.
Smith, I. M. (Romanes & Munro), Edinburgh.
Sutherland, A. R. (Alexander Sloan & Co), Glasgow.

Tenby, M. (Wilson, Stirling & Co), Glasgow.

Walker, T. McL. (Mackie & Clark), Glasgow.
Watson, R. (Kerr, MacLeod & Macfarlan), Glasgow.
Williams, A. E. (C. S. Depham & Co), London.
Williams, C. J. N. (Graham, Smart & Annan), Edinburgh.
Winning, B. T. (Johnstone, Logie & Millar), Dundee.

FINAL EXAMINATION

Second Division (Old Syllabus)

Of the 215 candidates who sat the Second Division of the Final examination (Old Syllabus) on May 15th, 16th, 17th, 18th and 19th, 1961, the undernoted 71 (33.02 per cent) passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

- | | |
|--|--|
| Anderson, J. W. (James Meston & Co), Aberdeen. | MacKinnon, D. A. (Mackie & Clark), Glasgow. |
| Barber, R. N. (Chiene & Tait), Edinburgh. | Maclean, N. (Hardie, Caldwell Ker & Hardie), Glasgow. |
| Basu, A. K. (G. Carlisle & Partners), London. | Main, W. J. (Brown, Fleming & Murray), Glasgow. |
| Benzie, J. D. (Dunn, Wylie & Co), London. | Marks, F. C. (Wilson, Stirling & Co), Glasgow. |
| Berrie, J. D. (Wallace & Somerville), Edinburgh. | Marshall, A. C. (Grahams, Rintoul & Co), Glasgow. |
| Birch, R. F. (John M. Geoghegan & Co), Edinburgh. | Matheson, D. (Howden & Molleson), Edinburgh. |
| Bond, R. T. (A. & J. Robertson), Edinburgh. | Mathewson, G. A. (Paterson & Benzie), Glasgow. |
| Brownlow, A. C. (Richard Brown & Co), Edinburgh. | Miller, J. C. (Dunn & Todd), Glasgow. |
| Bryden, J. B. (MacLean, Gardner & Aiton), Glasgow. | Mitchell, B. (Thomson McLintock & Co), Glasgow. |
| Burley, C. M. (Jackson, Taylor, Abernethy & Co), London. | Moore, P. (Thomson McLintock & Co), London. |
| Cameron, J. N. H. (Peat, Marwick, Mitchell & Co), Glasgow. | Morrison, M. S. (Wallace & Somerville), Edinburgh. |
| Campbell, D. W. (Hunter Smart & Dickison), Edinburgh. | O'Neill, C. P. (Peacock & Henry), Glasgow. |
| Campbell, I. (Thomson McLintock & Co), Glasgow. | Ramsay, A. (Boyack, Whitelaw & Aitchison), Edinburgh. |
| Carter, W. B. (Grahams, Rintoul & Co), Glasgow. | Recordon, P. L. W. (Touche, Ross, Bailey & Smart), London. |
| Dempster, I. S. (Cotton, Son & Macniven), Edinburgh. | Riddet, A. S. (McClelland, Moores & Co), Glasgow. |
| Duncan, I. M. (A. Galloway Brown & Co), Aberdeen. | Ritchie, A. (Hardie & Rowan), Greenock. |
| Emslie, E. D. (Clunie & Scott), Edinburgh. | Robertson, A. M. (J. & R. Morison & Co), Perth. |
| Fairbairn, J. D. L. (Graham, Smart & Annan), Edinburgh. | Robertson, I. C. McL. (Graham Smart & Annan), Edinburgh. |
| Forsyth, T. W. (G. K. Johnston & Smillie), Edinburgh. | Rodger, E. (Robertson, Davies & Co), Glasgow. |
| Fraser, J. M. (John E. Watson & Co), Glasgow. | Rothera, M. C. (Brown, Fleming & Murray), London. |
| Gray, A. S. (Wilson, Stirling & Co), Glasgow. | Russell, R. R. (Thomson McLintock & Co), Glasgow. |
| Gray, E. G. (C. J. Weir & Co), London. | Saffery, J. R. (McClelland, Moores & Co), London. |
| Hay, J. E. (Henderson & Loggie), Dundee. | Scott, A. A. C. (Howden & Molleson), Edinburgh. |
| Hinds, A. J. A. (Jennings & Co), London. | Scott, D. G. U. (Grahams, Rintoul & Co), Glasgow. |
| Hutchison, J. K. (A. T. Niven & Co), Edinburgh. | Smellie, W. H. (J. W. & R. N. Oswald), Edinburgh. |
| Kelly, E. (Henderson & Loggie), Dundee. | Sproul, R. (Wilson, Ferguson & Co), Glasgow. |
| Laing, J. J. (McIntyre & Rae), Dundee. | Stewart, I. O. (Thomson McLintock & Co), Glasgow. |
| Lees, R. W. (Todd & Gordon), Glasgow. | Stewart, W. G. (Craston Thomson & Allison), Glasgow. |
| Lenahan, T. W. (Wylie & Bisset), Glasgow. | Stuart, C. M. (McClelland, Moores & Co), Glasgow. |
| Macdonald, A. N. (Wardhaugh & McVean), Glasgow. | Thomson, B. (Hardie, Caldwell Ker & Hardie), Glasgow. |
| McFarlane, A. W. (David Strathie & Co), Glasgow. | Torbett, J. G. (Rogerson & Goldie), Kilmarnock. |
| McIntosh, W. D. (A. & J. Robertson), Edinburgh. | Urquhart, L. M. (Price Waterhouse & Co), London. |
| McKenzie, D. J. T. (Mackay, Irons & Co), Dundee. | Verth, A. (Rolland & Pomphrey), Glasgow. |
| McKenzie, H. A. N. (Scott & Paterson), Edinburgh. | Walker, K. W. (Grahams, Rintoul & Co), Glasgow. |
| Mackenzie, I. C. (Geddes, Beaton & Co), Edinburgh. | Waters, D. H. (Howden & Molleson), Edinburgh. |
| | Wood, I. D. (A. T. Niven & Co), Edinburgh. |

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

Results of Examinations held in May 1961

FINAL EXAMINATION

First Place, 'Arthur H. Muir' Memorial Prize, and the Institute Gold Medal
 Molony, A. P. M. O'C. M. (Dublin).

Second Place
 Daly, D. C., Kanturk, Co. Cork.

Third Place
 O'Connor, A. F., Dublin.

Full list of names of successful candidates (in alphabetical order)

- | | | |
|--|---|--|
| Angel, T. G. (Kilcock, Co. Kildare). | Hynes, F. A. (Dublin). | *Molony, A. P. M. O'C. M. (Dublin). |
| Bailie, S. J. (Newcastle, Co. Down). | Kavanagh, P. J. (Dublin). | Monahan, P. J. (Dublin). |
| Brophy, N. H. (Dublin). | Kelly, D. E. A. (Blackrock, Co. Dublin). | Oak, M. (Lisburn, Co. Antrim). |
| Christie, D. M. (Coleraine, Co. Londonderry). | Kennedy, N. (Belfast). | O'Brien, D. A. (Dublin). |
| Colligan, P. G. (Dun Laoghaire, Co. Dublin). | Kennedy, P. J. (Tullaroan, Co. Kilkenny). | O'Byrne, L. L. (Glenageary, Co. Dublin). |
| *Daly, D. C. (Kanturk, Co. Cork). | Kiely, P. F. D. (Foxrock, Co. Dublin). | *O'Connor, A. F. (Dublin). |
| Davitt, R. M. (Dublin). | Leahy, H. F. (Dublin). | Owens, T. J. (Charleville, Co. Cork). |
| Ferris, J. M. (Lisburn, Co. Antrim). | McCarthy, F. W. (Glenageary, Co. Dublin). | Rafty, V. P. (Dublin). |
| Groves-Raines, M. R. G. (Killinchy, Co. Down). | McCarthy, J. D. (Waterford). | Ross, J. (Ballyclare, Co. Antrim). |
| Hawkins, L. L. (Galway). | McKenna, D. C. (Dublin). | Scott, W. N. (Dublin). |
| Hodge, E. F. (Waterford). | MacLochlainn, S. D. (Dublin). | Thompson, D. J. (Dun Laoghaire, Co. Dublin). |
| | Meagher, F. J. (Ballinamuck, Co. Longford). | |

* See also place list above.

INSTITUTE EXAMINATION - PART II

First Place and 'John Mackie' Memorial Prize
Cuffe, D. B., Dublin*Second Place*Bland, G. C., Belfast.
May, N. W. M., Holywood, Co. Down.*Third Place*

Leddie, M., Banbridge, Co. Down.

Adamson, R. L. (Lucan, Co. Dublin).
 Allen, E. W. (Dublin).
 Armstrong, R. F. (Belfast).
 Artt, P. (Comber, Co. Down).
 Barber, J. S. (Cork).
 Barry, J. P. (Dublin).
 Bates, J. (Dublin).
 Beattie, D. (Newtownabbey, Co. Antrim).
 *Bland, G. C. (Belfast).
 Boyce, R. B. G. (Dublin).
 Browne, W. G. (Dublin).
 Browne, W. V. (Ennis, Co. Clare).
 Burke, J. J. (London).
 Byrne, D. J. (Dublin).
 Byrne, E. A. (Dublin).
 Byrne, J. M. P. (Dublin).
 Cahill, E. P. T. (Dun Laoghaire, Co. Dublin).
 Campbell, M. (Antrim, Co. Antrim).
 Carroll, R. H. (Dublin).
 Casey, J. L. E. (Dublin).
 Coady, M. J. (Dublin).
 Colhoun, W. (Londonderry).
 Collins, D. F. (Cork).
 Collins, J. K. (Lucan, Co. Dublin).
 Coppel, L. A. (Belfast).
 Crawford, G. D. (Belfast).
 Crawford, W. A. (Belfast).
 *Cuffe, D. B. (Dublin).
 Dennes, R. P. (Belfast).
 Dougan, T. E. (Belfast).
 Duffy, M. (Belfast).
 Duffy, P. C. (Londonderry).
 Duggan, D. P. (Dublin).
 Dunphy, T. D. (Dublin).
 Edgar, T. H. (Holywood, Co. Down).
 Fox, W. P. (Dublin).
 Geraghty, A. P. (Shankill, Co. Dublin).
 Glynn, P. D. (Blackrock, Co. Dublin).
 Grimes, G. M. (Skerries, Co. Dublin).
 Hardiman, M. J. (Athlone, Co. Westmeath).
 Harkness, G. D. B. (Belfast).

Hayden, N. T. (Dublin).
 Healy, A. J. J. (Dublin).
 Hearne, F. J. (Dublin).
 Heary, M. J. P. (Dublin).
 Hirst, W. H. (Holywood, Co. Down).
 Holland, J. N. (Dublin).
 Horkan, J. D. (Dublin).
 Hunter, W. I. (Dublin).
 Irwin, D. (Belfast).
 Jenkins, C. G. (Belfast).
 Jones, M. W. (Boosterstown, Co. Dublin).
 Keane, T. J. A. (Waterford).
 Kelleher, S. D. (Dublin).
 Kelly, H. H. (Belfast).
 Kelly, P. G. R. (Dublin).
 Kelly, V. F. J. (Dublin).
 Keogh, M. B. (Dublin).
 Kidney, J. C. (Dun Laoghaire, Co. Dublin).
 Lane, C. (Dublin).
 Lang, J. F. J. (Belfast).
 Layden, D. J. (Dublin).
 *Leddie, M. (Banbridge, Co. Down).
 Logan, P. (Belfast).
 McCabe, H. (Ballymena, Co. Antrim).
 McCormick, R. (Belfast).
 McCready, J. S. (Dublin).
 Mackay, P. W. (Dublin).
 McKay, W. F. I. (Newtownards, Co. Down).
 McKeown, T. A. (Bray, Co. Wicklow).
 Manning, J. P. (Strabane, Co. Tyrone).
 Marley, G. (Portadown, Co. Armagh).
 Marron, P. M. (Dublin).
 Martin, J. A. (Dublin).
 Martin, J. M. (Belfast).
 *May, N. W. M. (Holywood, Co. Down).
 Meneely, S. I. (Dunmurry, Co. Antrim).
 Morrow, G. (Belfast).
 Mulholland, J. E. S. (Belfast).
 Murphy, H. B. (Dublin).
 Murphy, J. E. (Dublin).
 Murray, C. A. A. (Dublin).

Nash, T. V. (Cork).
 Neary, R. J. (Dublin).
 Neely, J. B. (Belfast).
 Neville, D. W. (Dublin).
 Nixon, G. A. (Newtownards, Co. Down).
 O'Boyle, P. G. A. (Blackrock, Co. Dublin).
 O'Brien, E. B. (Cork).
 O'Brien, T. F. (Thurles, Co. Tipperary).
 O'Connor, D. E. (Dublin).
 O'Grady, B. M. (Dublin).
 O'Hara, F. G. (Lurgan, Co. Armagh).
 Oliver, J. H. (Belfast).
 O'Kane, P. I. (Dublin).
 O'Neill, J. F. (Dublin).
 O'Reilly, J. A. (London).
 O'Reilly, J. (Galway).
 O'Shea, J. F. J. (Dalkey, Co. Dublin).
 O'Sulleabain, S. (Blackrock, Co. Dublin).
 O'Tierney, F. J. (Dublin).
 Park, G. S. J. (Dublin).
 Power, E. A. (Dublin).
 Purdy, G. E. (Annalong, Co. Down).
 Quadros, O. P. X. (Belfast).
 Reid, J. C. D. (Belfast).
 Richards, A. J. M. F. (Bangor, Co. Down).
 Scott, J. E. (Belfast).
 Sexton, J. B. D. (Limerick).
 Shaw, R. M. (Dublin).
 Shortall, P. F. (Dublin).
 Shortt, F. B. (Dublin).
 Sleator, A. G. (Portadown, Co. Armagh).
 Spencer, M. A. (Limerick).
 Stewart, M. H. (Sligo).
 Tait, L. L. (Stillorgan, Co. Dublin).
 Tanney, B. P. (Belfast).
 Taylor, J. F. (Bangor, Co. Down).
 Taylor, M. W. (Dublin).
 Vaughan, F. M. (Dublin).
 Walsh, B. G. (Waterford).
 Walsh, J. C. (Dublin).
 Watson, G. A. (Dublin).
 Weston, J. J. (Donebate, Co. Dublin).
 Wilson, R. H. (Belfast).

INSTITUTE EXAMINATION - PART IV

First Place and 'Samuel Smyth' Memorial Prize
Welch, R. J., Belfast.*Second Place*

Forshaw, G. K., Belfast.

*Third Place*Hyland, J. J., Cork.
Sythes, M., Belfast.

Curran, J. F. (Dublin).
 *Forshaw, G. K. (Belfast).
 Hall, D. T. (Portadown, Co. Armagh).
 Hampson, B. D. (Dublin).
 Hogg, G. R. C. (Dublin).
 *Hyland, J. J. (Cork).

Jeffers, A. T. (Bandon, Co. Cork).
 Kennedy, R. F. (Ballymena, Co. Antrim).
 Millar, J. (Newtownabbey, Co. Antrim).
 Moore, D. J. C. (Malahide, Co. Dublin).
 Morton, J. C. (Newcastle, Co. Down).

Myles, D. L. R. (Portadown, Co. Armagh).
 Phelan, T. P. (Dublin).
 *Sythes, M. (Belfast).
 *Welch, R. J. (Belfast).
 Whieldon, A. G. (Belfast).

PRELIMINARY EXAMINATION

Andrews, R. J. W. (Bangor, Co. Down).
 Hyde, A. H. (Portadown, Co. Armagh).

Fletcher, W. P. (Mullingar, Co. Westmeath).
 Mayberry, D. R. (Delgany, Co. Wicklow).

Sloan, W. J. H. (Lisburn, Co. Antrim).

* See also place list above.

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The Great Divide

SOME years ago we published a leading article headed 'Faithful service thus repaid' in which we drew attention to the marked difference in the way in which the Income Tax Acts treat the expenses of a taxpayer assessed under Schedule E, compared with a taxpayer assessed under Schedule D. Broadly speaking, the latter need only prove that his expenses were incurred 'wholly and exclusively for the purpose' of his trade, profession or vocation. The taxpayer assessed under Schedule E has in general to prove that his expenses were incurred not only 'wholly and exclusively', but also 'necessarily'; and not merely 'for the purposes' of the employment but in the actual performance of the duties. Added to this legal discrimination between Schedule D and Schedule E expenses, there is the well-known fact that the Inland Revenue, as a matter of policy, scrutinize Schedule E expense claims far more closely than the corresponding Schedule D claims. Their methods of discrimination came in for a great deal of severe criticism during the hearings of the Royal Commission on Taxation and many people found their answers to these criticisms somewhat unconvincing.

In view of this cleavage between Schedule E and Schedule D, one might think that there was some essential difference between the two kinds of income. The answer is that there was, long ago; but since 1922 the question whether a particular occupation falls within one of the other schedules is often balanced on a hair's breadth. Originally, Schedule E was confined to certain defined public offices, like that of a member of Parliament. The vast majority of earners were assessed under Schedule D as carrying on a trade, profession, employment or vocation. Registered limited companies were unknown, and therefore the nice point of whether their directors held public offices did not arise.

Now Schedule E was much easier to apply, administratively, than Schedule D so the Inland Revenue extended its scope as far as possible. They did this without challenge until the Great Western Railway, finding its duties irksome under the then form of P.A.Y.E., questioned the right to assess a railway clerk under Schedule E. The railway's victory was complete. As one of the learned law lords remarked, the clerk did not hold an office, he sat in one.¹ This decision did not suit the Inland Revenue; it meant more administrative work. Consequently the Finance Act of 1922, by Section 18, provided laconically that the income from an office, employment or pension which was chargeable under Schedule D was henceforth to be chargeable under Schedule E 'and the rules

¹ *Great Western Railway Co v. Bate* (8 T.C. at 253).

applicable to that schedule shall apply accordingly'.

There is no choice between Schedule D and Schedule E, because Schedule D is the 'sweep-up' schedule which applies only to income not covered by the other four schedules. It is curious that the leading, and perhaps the only, case where it was established that a taxpayer fell under Schedule D and not Schedule E, was a victory for the Inland Revenue.¹ MISS BRAITHWAITE, the actress, had engagements in this country and abroad. If they were 'employments' within the meaning of Section 18 cited above, it meant that those abroad would escape tax. The Inland Revenue successfully contended that they were not 'employments' and that accordingly MISS BRAITHWAITE could be taxed on all her professional income, under Schedule D. Without such special circumstances making it worth their while, the Inland Revenue resist claims that Schedule D applies, so that they can restrict the expenses. One example is *Fuge v. McLelland* (35 A.T.C. 274).

Another example is *Mitchell and Edon v. Ross* (38 A.T.C. 422; 39 A.T.C. 52) concerning medical consultants for whom an essential ingredient of the exercise of their professions is the holding of an appointment under the National Health Service. It has been established beyond doubt, on a proper construction of the somewhat voluminous National Health Service legislation, that such an appointment is an 'office' within the meaning of the Income Tax Acts. The complex arguments as to whether or not these appointments fell within Schedule E owed their existence purely to the enormous difference between the two schedules in their treatment of expenses; no one cares very much what schedule applies to his income if the tax is the same. After some remarkable differences of judicial opinion, the House of Lords has now arrived at a decision which is a complete victory for the Inland Revenue and a severe blow for the medical and, indeed, other professions.

The Special Commissioners found that the appointments were 'offices' but held, on the authority of *Davies v. Braithwaite*, that the emoluments were nevertheless to be charged under Schedule D. If this decision had prevailed, the Inland Revenue would have been hoist by their own petard. However, not even the taxpayer supported the decision in the subsequent litigation.

¹ *Davies v. Braithwaite* (10 A.T.C. 286).

What he did put forward was the hardly more tenable proposition that because he carried on a profession, that prevented the appointment from being an office at all, within the meaning of the Income Tax Act. Neither of these two versions of the principle established in *Davies v. Braithwaite* met with the approval of any of the judges. MR JUSTICE UPJOHN allowed the Crown's appeal from the Special Commissioners on this point. He rejected the taxpayer's further argument that even though the appointment was assessable under Schedule E, any expenses of it not permissible under that schedule could be allowed against the Schedule D earnings. (*Salisbury House Estate Ltd v. Fry* (9 A.T.C. 101)).

The Court of Appeal, while holding that the appointment was an office whose emoluments were charged under Schedule E, accepted the contention that Section 137 (a) of the Income Tax Act, 1952, providing for Schedule D expenses, was wide enough to include the expenses peculiar to the appointment, which could therefore be allowed against the Schedule D income as being precisely within the wording of Section 137 (a). LORD JUSTICES PEARCE and HARMAN relied on *Hughes v. Bank of New Zealand* (17 A.T.C. 139) where the Bank was allowed to deduct expenses incurred in connection with securities which were exempt from tax in its hands.

Unfortunately for the taxpayer, the House of Lords has unanimously restored the decision of MR JUSTICE UPJOHN. VISCOUNT SIMONDS, who delivered the first judgment, said (according to *The Times* of July 7th) that it was settled law that the schedules were mutually exclusive. Each schedule afforded a complete code for each class of income. The fact that the practice of a profession was such as to make it necessary to take an appointment assessable under Schedule D lent no support to the view that the expenses of one could be set off against earnings of the other.

LORD RADCLIFFE, concurring, doubted whether the grievances of the taxpayers in this case were more concerned with the law than with their employers, the National Health Service. This could well have been a reference to the system of paying global remuneration out of which the appointee meets his own expenses. A little collusion between the Service and the medical consultants, dealing with the provision of benefits, could make a great deal of difference.

Contributory's Right to Compulsory Winding-up

by W. H. D. WINDER, M.A., LL.M.

TO obtain an order for the compulsory winding-up of the company of which he is a member, a contributory must make out a special case. He will usually seek to bring his petition within the terms of Section 222 (f) of the Companies Act, 1948 – the sixth of the sets of circumstances in which a company may be wound up by the Court, unless the company is unable to pay its debts, when (e) would apply. The present article is not concerned with (e) but with (f), that is, circumstances in which 'the Court is of opinion that it is just and equitable that the company should be wound up'. To make an effective appeal to the Court for the use of its powers in Section 222 (f) a contributory must show the Court by sufficient allegation that he has a sufficient interest to entitle him to ask for the winding up of the company'.

By this is meant a tangible interest, the mere allegation of a probable surplus in the winding-up not necessarily being sufficient. This principle governing contributories' rights was laid down in the case of *Re Rica Gold Washing Co* ((1879) 11 Ch.D. 36) and in the recent case of *Re Newman & Howard Ltd* ([1961] 2 All E.R. 495) it was recognized as still being the guiding rule in most cases.

In enunciating the test of 'sufficient interest' in 1879, Jessel, Master of the Rolls, added:

'I say a "sufficient interest", for the mere allegation of a surplus or of a probable surplus will not be sufficient. He must show what I may call a tangible interest. I am not going to lay down any rule as to what that must be, but if he showed only that there was such a surplus as, on being fairly divided, irrespective of the costs of the winding-up, would give him £5, I should say that would not be sufficient to induce the Court to interfere in his behalf.'

If £5 was a rough dividing line eighty years ago perhaps £50 can be regarded as the rough dividing line now.

Tangible Interest: Surplus Assets

If the petition alleges that the company is insolvent and unable to pay its debts then prima facie the contributory cannot insist on a

compulsory winding-up. It would then appear on the face of it that a winding-up would do him no tangible good. His petition would be likely to be held demurrable. An allegation that a company has no assets and is insolvent has been held to disentitle a petitioner to an order: see *Re Kaslo-Slocan Mining & Financial Corporation Ltd* ([1910] W.N. 13).

Following the earlier cases, the general rule was re-stated in *Re S. A. Hawken Ltd* ([1950] 2 All E.R. 408). In that case also the petition contained an allegation that the company was insolvent but Mr Justice Wynn-Parry, after looking at all the documents in the case and the available figures, thought that 'the contributories would appear to have, at least, a tangible interest in a winding-up'. That being so, he held that he was not strictly bound to consider merely the allegation of insolvency in the petition.

Refusal of Information and Accounts

There is no doubt that the general rule is as stated by the Court of Appeal in *Re Rica Gold Washing Co*, observed Mr Justice Pennycuik in this year's case (*Re Newman & Howard Ltd*), but he held that there was an implied qualification to that general rule in a case in which the petitioning contributory had been refused information about the financial affairs of the company.

The petitioner and his wife and one H. and his wife, were the sole shareholders and directors of a company. As a result of disagreements the petitioner and his wife resigned office as directors, leaving the affairs of the company in H.'s hands. From the date of their resignation no general meeting was held and the petitioner was unable to obtain any accounts or information from H. in regard to the company's affairs, in spite of repeated demands. As a last resort, the petitioner, as a contributory, presented a petition to the Court for the compulsory winding-up of the company on the ground that it was just and equitable to do so. As a result of the petition H. produced accounts of and information about the company. The petitioner,

therefore, no longer desired a winding up order. There remained the question of his costs and this raised the fundamental question of whether his petition was fully justified. The petition did not allege that the company had, or might have, surplus assets available for contributories in the winding-up. The petitioner was, of course, unable to say whether this would have been so precisely because he had been refused accounts and information.

The company contended that it should not pay the petitioner's costs as the petition was demurrable on the ground of failure to allege a tangible interest in the winding-up asked for. The company went further and contended that he should pay the company's costs of the proceedings. The Court rejected both these contentions, holding that the contributory was entitled to the costs of the petition from the company.

Implied Qualification of General Rule

It seemed to the judge that from the very nature of the case there must be an implied qualification of the general rule requiring an allegation of a tangible interest. Mr Justice Pennycuik said:

'In a case where the petition is based on a failure to supply accounts and information, with the consequence that the petitioner is unable to tell whether or not there will be a surplus available for the contributories, it cannot really be the law that the petitioner is bound to make and to verify on oath the statement that the company has surplus assets when, by reason of the company's own default, he is not in a position to tell whether or not that statement is true. . . . The rule is simply inapplicable to a case such as the present.'

The practical result of the recent decision is that a contributory may effectively secure copies of accounts, when other means have failed, without being put to undue expense.

Variances from Standard Production Cost

III – OVERHEAD VARIANCES

by R. G. H. NELSON, F.C.A., F.C.W.A.

Previous articles in this series, published in the issues of April 22nd, 1961, and May 13th, 1961, dealt with materials variances and labour variances.

1. Measure of Basis of Variability

THE words 'measure of basis of variability' used on the chart mean that measure which is appropriate to the type of expenditure under consideration. References to 'fixed' and 'variable' overheads have been avoided so far as possible because over a sufficiently wide range of activity no item of overhead cost is fixed; and it is debatable whether any item is perfectly variable with any particular measure of activity.

Some possible bases of variability are:

Man or machine hours worked.

Units or standard hours produced.

Number of sales orders, or purchase orders.

Research and development effort, in hours or cost.

The actual degree of variability of costs will be influenced by management structure and by the impact of the limiting factors in force (shortage of manpower, of floor space, market conditions affecting selling effort, etc.).

Given a management policy and the relevant limiting factors, it is theoretically possible to establish a variability curve for any item of expense in relation to some base, for all measures

from zero to infinity. Given further the practical limits of activity, it is possible to establish a manageable number of conventional measures of variability; and to say that within those limits certain items of expenditure will be fixed (i.e. the relationship between the measures of budget and actual variability will be unity; in terms of the accompanying chart, there is no cost allowance for fixed overheads).

2. Bases for Control and for Recovery of Cost

For the purpose of controlling overhead expenditure it is necessary to distinguish between that variation from a basic budget which is due to changes in the level of activity; and that variation which is due to lack of control. In establishing 'allowed' expenditure, therefore, the full gamut of variability bases can be used.

When considering recovery, however, a primary requirement is simplicity from the points of view both of economy of operation and of ease of explanation to management. The conventional bases of recovery are consequently largely arbitrary.

PRODUCTION OVERHEAD VARIANCE

(Actual recovery base \times standard overhead rate) — actual expenditure

BUDGET VARIANCE	EXPENDITURE VARIANCE		RECOVERY VARIANCE	
	Cost Allowance (Variation between basic budget of expenditure and allowance applicable to level of activity)	Cost Variance (Controllable Variance)	Volume (Activity) Variance	Absorption Base Cost Variance
Basic budgeted recovery expenditure	Basic budgeted expenditure — actual expenditure NOTE. — This is the only formula applicable to overheads which are fixed for the period of review. For overheads which are to any extent variable the following sub-analysis may be made:		(Actual recovery base — budgeted recovery base) \times standard overhead rate	
May be:				
(a) Rounding-up Variance Recovery rate does not absorb exact amount of budgeted expenditure, due to approximation.	Basic budgeted expenditure — (basic budgeted expenditure \times actual measure of basis of variability) NOTES (1) Timing Variance. With seasonal or spasmodic overheads, part of the explanation of Cost Variance may be the erratic timing of outgoings. This factor may be recognized in a separate variance account self-balancing over the budget year. No general formula is available. (2) If standard costing is applied to individual items of overhead, the following sub-analysis is possible:	(Basic budgeted expenditure \times actual measure of basis of variability) — budgeted measure of basis of variability	Actual recovery base — budgeted recovery base in physical terms or at standard cost \times standard overhead rate	(actual recovery base — actual cost — actual recovery base at standard cost) \times standard overhead rate.
(b) Standard Activity Variance Recovery rate based on normal or long-term activity instead of on activity of year.			Capacity Variance [Measure of actual capacity employed — Measure of budgeted capacity employed] \times budgeted recovery base \times standard overhead rate	
(c) Calendar (Phasing) Variance Expenditure phased on different basis from recovery (self-balancing over budget year).			Efficiency Variance [Actual recovery base — Measure of actual capacity employed] \times budgeted recovery base \times standard overhead rate	
	Price Variance Standard units of overhead appropriate to actual level of activity \times (standard cost per unit — actual cost per unit)	Rate of Expenditure (Quantity/Usage) Variance Measure of actual activity \times [(standard units — actual units of overhead per unit of activity) \times standard cost per overhead unit]	For example: Budgeted hours produced \times actual hours worked — budgeted hours worked For example: Actual hours produced \times (budgeted hours produced \times actual hours worked) — budgeted hours worked \times standard overhead rate	

NOTES

- (1) Basic Budget means the budget applicable to the planned or forecast level of activity for the budget period.
 (2) Mix. — Each of the above recovery formulas assumes a single overhead rate. If a number of overhead rates are averaged the resulting Recovery Variance will not be exact unless the index of activity varies in the same proportion for each burden centre.
 (3) Make/Buy Variances. — Apply standard overhead rates to formulas given in chart of 'Labour Cost Variance' (The Accountant, May 13th, 1961).
 (4) Revision Variances. — See chart 'Material Cost Variance' (The Accountant, April 22nd, 1961) for principles to be used.

It does not matter that the basis for recovery differs from the basis for control. Planned recovery should, however, equal planned expenditure over the foreseeable range of activity except:

- (a) where short period under or over absorption is incidental to the phasing of the budget; or
- (b) a long-term, or normal recovery rate is being used giving planned over or under absorption in particular budget years.

Bearing in mind the difficulty of identifying reliable bases of cost variability, it is often advantageous to establish budget allowances for variable expenses purely on standard units produced (or the equivalent in standard hours or labour cost) and to use the same standard units as the recovery base. This being done the textbook position is reached that the cost allowance equals the volume variance on variable overheads, i.e. there is no net variance other than the controllable cost variance. If desired this position can be demonstrated by having separate variable and fixed recovery rates.

3. Recovery Variances

The available sub-analysis of recovery variances will depend on the bases of recovery in use, for example:

<i>Basis of Recovery</i>	<i>Variances calculable</i>
Hours worked.	Capacity variance.
Hours or units produced, or standard cost of production.	{ Capacity variance. Efficiency variance.
Total direct labour cost.	{ Capacity variance. Absorption base cost variance.

In this last instance the absorption base cost variance will in fact be the labour cost variance multiplied by the overhead recovery rate; and may be sub-analysed if desired by applying the overhead rate to the various elements of labour cost variance illustrated in the chart accompanying the previous article in this series.¹ This sub-analysis will include efficiency variance if standard hours are known.

It must be borne in mind that recovery variance measures the effect of actual against budgeted recovery base. Therefore, if the recovery base includes hours scrapped (i.e. is hours worked) then overheads will have been loaded into scrap costs before the recovery variance is calculated. An 'overhead on scrap' variance can only occur either as part of the absorption base cost variance or in the rare event of overheads being recovered on 'net hours worked on good production'.

4. Product Unit Costs

Under a standard costing system it is sometimes necessary to establish the actual cost of a product unit by applying variances to the standard product cost.

For this purpose the following overhead variances would not normally be taken into account:

Cost allowance	{ because the fundamental idea of this allowance is to adjust total expenditure in line with the number of units produced.
Calendar variances Timing variances	{ because these represent book-keeping adjustments unrelated to the trend of costs.

Under the system of flow-line or batch costing it must be remembered that the total variances of a period do not relate solely to the good units produced, but must also be identified with changes in the level of work in progress.

The apportionment of capacity variance to product lines may be dealt with in one of three ways:

- (a) the variance may be spread over the units manufactured in proportion to the planned absorption on each; on the grounds that the change in total capacity employed has increased or reduced the average cost per unit;
- (b) the variance may be divided into an adverse variance caused by production of some products below budget capacity, and favourable variance caused by production of other products above budget capacity; and the two parts apportioned to the respective products concerned;
- (c) the variance may be treated as an abnormal profit or loss not related to cost of production. No rule applicable to all cases can be established. Similar conditions apply to standard activity variance.

5. Commercial and Administrative Overheads

Although the chart is drawn up with reference to production overhead, most of the formulae given are in sufficiently broad terms to be applied to other categories of overhead expense, such as commercial or administrative overhead.

Where the basis of recovery is sales volume, however, the volume variance would be sub-analysed in line with the analysis of sales variances to be dealt with in the fourth of the present series of articles; and where the basis of recovery is sales value then an absorption base price variance would be substituted for the absorption base cost variance.

¹ *The Accountant*, May 13th, 1961, at page 590.

Internal Audit — an Aid to Management

by W. R. SEDDON, M.Sc.Tech.

THE profession of internal auditing has developed a good deal since the days when it was mainly a clerical activity concerned with the detection of fraud. It is no longer solely concerned with checking the accuracy of records and financial statements, but with a wider concept in an ever-widening field of activities — that of providing a critical yet constructive service to management.

The Institute of Internal Auditors' statement of responsibilities states that 'internal auditing is an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to management'. But the question to ask is how far is the internal auditor meeting the challenge of this? It must be clear that this concept, whilst still recognizing the importance of safeguards in connection with the handling of cash and financial assets, is intended to deal with the investigation and appraisal of conditions which, if changed, could help to improve effectiveness and increase profitability. If the internal auditor is to make his full contribution, he must be concerned not only with seeing what is intended to happen, does happen, but with questioning whether what happens should happen at all. In modern industrial conditions it is this kind of thinking which he must learn to adopt.

Management Controls

In setting up any enterprise, it is essential first to define the objectives. Indeed, until this has been done, it is impossible to determine the human and material organization needed to suit the defined task. This is very much management's business. It requires forecasting and planning of the human, material and financial resources, the provision of a suitable organization to arrange the various activities into groups which can be assigned to individuals, and controls to measure the significant aspects of an undertaking's operations.

Control has been defined as 'seeing that everything occurs in conformity with established rule and expressed command'. In essence, it means regulating and holding in check, and what is the object of forecasting, planning, organizing, directing and co-ordinating if it is not to provide constraints in order

to control resources for the achievement of a particular objective? These are the processes of management, but if they are accepted as controlling activities, it will be seen that within this definition there is considerable scope for providing guidance and assistance in the management function.

In any business it is necessary to have technical, commercial, financial, accounting and security activities. It is through these that the internal auditor's opportunity lies, since management needs what these services provide for guidance and as an indication of effectiveness.

Need for New Ideas in Control

The idea of control has long been recognized as an essential function in any undertaking, but the modern approach to control has come about as a result of new opportunities which have presented themselves in the changing outlook of business itself. The shift has been from regarding financial figures and statistics as an interesting record of past activities towards developing them as a means of measuring currently every aspect of an undertaking's operations.

With the growth in size and complexity of commercial and industrial enterprises, the manager has become increasingly dependent upon mechanisms and procedures that can provide an indication of management effectiveness. But he must also have a well designed organization structure that will ensure a clear division of functions with proper delegation of authority, and clearly defined responsibilities; basic requirements for effective control.

Control is not merely statistics, or reports or procedures, but a continuing activity. Management needs information; it needs it more quickly and in such a form that is as valuable for assessing the future as for reviewing the past. Modern systems of control attempt to fulfil these needs, but often there is too much historical information that is virtually useless to the manager as a guide to action. An organization is composed of constantly changing situations and it is against this background that the internal auditor must carry out his task.

The modern view of control affects not only the methods adopted by the accounting function, but the kind of data and information required for management. In this situation the former becomes much more specialized, but it is important to recognize

that the function of the accountant is not to control: that is the job of the manager.

Principles to be Followed

Apart from the kind of figures and the form in which they should be available to management, there are certain underlying principles which must be taken into account when setting up controls.

All information provided for control must be in line with the organization structure. It is an important principle of management that authority and responsibility must correspond, and because responsibility means accountability for the carrying out of specific duties, the figures which relate to that responsibility must correspond with the individual's authority.

It is important to consider the terms in which information for control should be presented. In principle, any figures for the purpose of control should be related to standards of performance required. In labour cost control for example, the standard time must be compared with the actual time taken in completing a piece of work. Thus figures set against pre-planned performance which management sets as a target, indicate how far management was successful, and act as a spur to inquiries into the reasons for discrepancies as a basis for action. But merely to present information on the basis of, say, comparing last year's sales with this year's sales is not enough; it provides no real guidance for management action. It may be interesting to know this kind of thing, but it is of little use in a control sense since it fails to focus management attention where it is needed. It is not the internal auditor's job to prepare control information, but by questioning the value of much of the statistical information which is frequently prepared, he may be able to demonstrate where worth-while improvements can be made.

In examining the various reports and figures provided for management, it is necessary to consider their value in relation to time. All figures for control purposes become progressively less useful the further away in time they are from the event, and to delay information, especially if it is merely to ensure minute accuracy, detracts from its usefulness from a control point of view.

Another requirement which must be kept constantly in mind is the principle of control by exception. What the manager should be concerned with is in knowing what is going wrong; it is in spending his time on these matters that he is doing his real job and carrying out his proper function. The manager needs condensed reports covering all the essential elements entering into management, and presented in such a way that his attention is directed to divergencies from standards and 'black spots' requiring his attention.

Control of Labour Cost

It must be kept constantly in mind that the real purpose of control is to ensure the best use of re-

sources. Management is concerned with the effective use of all resources and if control is inadequate suitable procedures must be devised to provide adequate guidance, as well as incorporating suitable safeguards.

In present-day conditions, labour cost is an important item of expenditure and its proper control must be high on the list of priorities for attention, but unless the arrangements are properly set up and steps taken to see that they are properly administered, all kinds of irregularities can become established.

The primary object of incentive control is to ensure that payments under any particular system bear a realistic relation to the operative's performance. The internal auditor's task would be to see broadly that these conditions were being satisfied, not in the sense of checking labour standards etc., but from the statistical information available, to see that the main conditions were being satisfied.

In dealing with the auditing of incentive schemes, it must be realized that the development and introduction of equitable standards is a primary requirement. It is the work study engineer's job to satisfy this requirement, and to provide the necessary procedures and specification of operating conditions. For direct operatives, it will usually be found that control is relatively satisfactory but for indirect operatives a variety of unsatisfactory features may be found. Here it is more difficult to set precise labour standards, and often no attempt is made to control these costs even by budget. Investigations here will often reveal waste and extravagance in manpower.

The internal auditor cannot be expected to have, nor need he have, a detailed knowledge of specialized work study techniques, but to make any headway and impact in the field of management operations he must have a broad grasp of principles. In all this he will need to work in liaison with the work study department to keep abreast of policy changes, new developments and procedures.

The procedure for incentive audit must provide adequate checks to ensure that correct labour standards are applied to the production being claimed, that non-payment for rejects is complied with, that all claims for allowances are properly authorized by a responsible person, and that the arrangements for calculation of earnings are adequately checked. An investigation of trends of performance and earnings can often provide a clue to unsatisfactory features that may be developing. It is not sufficient to look only at gross earnings, but how earnings are made up, say as between piece-rate earnings and allowances which may be paid in addition. Maintenance of standards is also of the utmost importance, as with the passage of time it becomes increasingly difficult to carry out revisions if neglected. Incentive schemes should provide for the revision of rates up or down when conditions change, and a close watch is needed to see that standards revisions are kept up to date.

Labour cost control is not complete without

labour cost control statements. These provide for weekly comparison of standard labour cost with actual labour cost and by suitable analysis can be made to show the different reasons for excess costs. To management, excess cost is a signal for improvement, and the internal auditor should satisfy himself that the breakdown of these costs reflects the true position and that the figures are prepared promptly.

Material Control

As important as labour costs, and sometimes more so, is the need for adequate means of controlling material. As for labour, standard quantities should be determined for each product being manufactured, and be used for comparison with actual usage in regularly prepared statements. It is of little use to have well-designed procedures for material issues and requisitioning, if overall there is no proper reconciliation of how the material has been used or disposed of. In certain types of material there can be invisible losses or gains due to fluctuations in moisture content, and even small percentage variations can amount to a substantial annual sum. The internal auditor would not be concerned with the technicalities of a situation of this kind, but he should be alive to the need for control in such cases. The total problem is one of creating a greater all-round awareness of the need to improve material control.

In dealing with the problem of material control, the placing of too much faith in material standards alone must be avoided. Sometimes those in use are not soundly based, and have not been derived from a systematic study of all the factors involved. Simply to take the material content of the finished product and add some arbitrary percentage to cover waste is a most unreliable basis on which to attempt material control. At every stage usage and waste must be studied.

All scrap must be properly accounted for, and even methods of disposal must be thoroughly investigated. Is all scrap really scrap, or are arrangements so haphazard that proper reclamation procedures have not been developed and given their rightful place in the organization? All these things have to be considered before one can claim to be operating a sound system of material control.

Purchasing Policy

Reference must be made here to the scope that exists for examining the purchasing function. Clearly, purchasing policy can have an important influence on the size of stocks. Many factors enter into this, and one cannot automatically conclude when there are relatively high stocks that purchasing policy is wrong. It can pay to carry higher stocks than are needed because of seasonal considerations or because of bulk buying advantages, but reasons for high stocks are always worth detailed investigation. There are cases

where high stocks can be shown to be due to too great a variety through lack of any attempt to standardize raw material and parts stocks. Stock represents idle capital and that is expensive. The major requirement is for close liaison between the purchasing department and that responsible for requisitioning to ensure that production requirements and rates of stock usage are properly co-ordinated. Where variety is concerned, variety reduction studies should be initiated by the production engineering department. In larger organizations, local purchasing arrangements will sometimes be found serving individual manufacturing units as independent functions. A study of these arrangements should be made to consider the case for co-ordination of purchasing with a view to a reduction in stock-holding in total, and to gain the price advantage of bulk buying. Obsolescence is also of considerable importance, as is the space taken up by redundant or excess materials that could be used more productively.

Stock Reduction

In looking into the question of stock reduction, a check should be made on the system of coding and classification. Items should be classified so that like things come together in the storage. Codes should also be arranged so that only one code is assigned to a particular item. The next stage is simplification which will frequently suggest itself when a systematic review of items has been completed.

As well as raw material stocks, of equal importance is the need to control finished stocks. Again there should be less concern with seeing that stock recording and control procedures are functioning as they were intended than with the larger question of whether stocks are too high. I am not suggesting that procedures should not be examined, but as applies in other cases, procedures must achieve their wider purpose of helping to increase effectiveness in the use of resources. A high rate of stock turn is a key factor in profitability, but unfortunately there is frequently a clash of interests here. Sales management like to have sufficient stocks in all varieties to supply whatever a customer wants immediately. Financial management wants stocks down to zero because money is 'tight'. Between the two is a reasonable compromise, but until an investigation has been made of all the factors, a considered decision cannot be taken. What is but rarely done, is to examine the problem in total. The whole problem from raw material to finished stock must be considered.

It is here that some of the newer and specialized techniques can be valuable. Rule-of-thumb methods may not be adequate, and it is in these circumstances that the techniques of operational research can be especially useful. I am not suggesting that the internal auditor should be able to carry out the technical part of such an investigation, but he should be able to see the whole problem in perspective, and

be sufficiently aware of all the aspects of the problem to make a case to management for a proper investigation, from a technical standpoint.

Personnel Policy

Whilst there are many other directions in which the internal auditor can provide useful guidance, I want to mention one other specific field and that is in regard to personnel. The most important resource an organization possesses is its personnel without which all other resources would be meaningless. This means that control in this function must be of considerable importance, not in the sense of discipline, or of labour standards, or working conditions, but in the sense that we give due consideration to personnel needs from the company point of view. And this is not one-sided, because a joint consideration of company needs and personnel needs provides the optimum basis for effective operation. There must be an adequate personnel policy. A sound policy leads to a contented labour force, reduced labour turnover, and lower production costs, so that it is worth taking some trouble to see that proper attention is being given to this aspect.

Perhaps one of the best guides is the rate of labour turnover, and this should be regarded as a basic statistic from which to start. The significance of this is in the cost implications which this represents. We may or may not spend a large sum on training, but in one form or another, the replacement of an operative costs a great deal of money. Apart from any training costs that may be involved, there is the cost of excessive scrap, lost production, and the administrative service which has to be provided to deal with it, and therefore the reasons for abnormal labour turnover are worth close investigation. Perhaps man and job specifications are inadequate or non-existent, or initial selection is not sufficiently developed to provide standards which line up with specifications of job attributes. No employer is unaware that labour turnover can be costly, but there are few managements who try to evaluate it in hard cash terms. Some would be shocked if they did. Nevertheless an appraisal of this can be a most useful exercise, and who better to do it than an impartial investigator such as the internal auditor? He will not find all the answers, human situations are like that, but at least he will be able to bring objectivity to bear, and useful pointers for improvement will be found.

Opportunities

The areas I have indicated where the internal auditor can be of great help, are intended to be no more than a few examples to illustrate the wide range of possibilities for assisting 'all members of management in the effective discharge of their responsibilities'.

As an independent observer, and free of bias, the internal auditor has a special opportunity to seek out worth-while avenues of investigation. His mental

attitude must be one of constant inquiry rather than of routine checking and investigation. He will need to be concerned not merely with seeing that certain procedures are working as intended, but of questioning whether these procedures should be operated at all. In a broad sense this means being on the look-out for waste in all its forms.

Some managements will be initially suspicious of any attempts to break new ground. Probably there will be only a grudging acceptance of a role which seeks to extend and advance beyond that of checking and verifying the accuracy of financial reports and satisfactory operation of procedures, and not until the internal auditor has demonstrated his ability and sold himself through successful projects, will prejudice decline. Perhaps the biggest mistake that can be made is to try to go too far too quickly. A few simple jobs done well will create a far better impression than tackling a big job which gets out of hand.

It is pertinent here to examine what steps need to be taken to prepare for the increasing range of work to be undertaken. Firstly, apart from technical skills, the internal auditor will need to familiarize himself with the basic aims of the business, its policies, its products, its organization. In trying to help management, he will need to know a good deal about management, and fully appreciate that whilst the tools and techniques of management are important, they are only a means to an end. It must be realized that you cannot manage men and women by a system; and great care is needed to see that systems do not become an end in themselves. This is the real danger with controls, and unless they are well designed with the minimum of paper and only essential information, they will fail to achieve their object. The secret of successful administration is not the constant creation of new departments, or authorities, but the proper relation of existing parts of the organization so that essential controls emerge from the experience of their interacting.

And what of the qualities and training that the internal auditor should have? As I see it the specification is formidable. He needs analytical ability, mature judgment, courage and integrity; a questioning mind which is at the same time flexible, and a great deal of tact to enable him to handle the many difficult personal relationships which will be involved. He will need initiative and resourcefulness to achieve his objective. Good report writing, and an ability to present his case are especially important. On these a good deal of his success will depend. Above all, he will need to learn to preserve his independence in thought and action, and deal in facts and not opinions.

Perhaps the philosophy of the internal auditor is best expressed in the following verse:

'A thing is not right just because we do it,
A method is not good just because we use it,
Equipment is not the best just because we have it.
The best of us has much to learn.'

Weekly Notes

Report on Tribunals

THE second report of the Council on Tribunals, for the year 1960, was published last Tuesday.¹ It draws attention to the Statutory Instrument made last January which requires the Special Commissioners to give their reasons for decisions reached on applications made to them under Section 28 of the Finance Act, 1960 (tax avoidance), where an appeal from such decision lies to the new tribunal set up by Section 28.

It emerges from the report that there are 639 income tax divisions in England and 59 in Scotland. The number of cases heard by General Commissioners is not known, but in 1960 the Special Commissioners dealt with 1,985 cases; the Board of Referees with eight cases. The new tribunal referred to above did not sit in 1960.

The Council says that it expects the difficult question of costs will be referred to it before long; for taxpayers forced to appeal against assessments, this is certainly a grievance in many cases.

Taxing an Employee's Flat

IN a leading article in this issue we discuss the anomalies which exist in the different treatment of expenses in relation to Schedule E and Schedule D. The provisions first enacted in 1948 with a view to extending the scope of Schedule E to benefits in kind have exacerbated the grievances of taxpayers assessed under that schedule. The latest example is the case of *McKie v. Warner* which was decided in the High Court on July 7th. Mr Warner was in the service of Jack Olding & Co Ltd, a company which, *inter alia*, was world-wide distributor of Vickers tractors. In 1950 the company appointed him export sales supervisor in relation to the tractors. This department of the business was carried on from Park Lane, W1, while Mr Warner lived at Little Hadham, Hertfordshire, with his wife and children. The company considered it essential that he live in London if he were to carry out his duties satisfactorily. His wife found a flat in Queensgate, SW7, and the company took a lease of it at £500 a year. It agreed to allow Mr Warner to occupy the flat on his agreeing to pay £150 a year to the company and to pay for gas and electricity. Thereupon Mr Warner and family moved in; not because they wanted to leave Hertfordshire but because the company wanted Mr Warner to be

near his work. Part of his duties was to entertain foreign buyers: a room was available for them at the flat, but was used by a member of his family at other times.

The Inland Revenue assessed him to tax on £350, the difference between the £500 and the £150, but refused any deduction for expenses. Mr Justice Plowman, dismissing Mr Warner's appeal, said that the provision of the flat by the company was clearly the provision of living accommodation and therefore a benefit within the meaning of Section 161 (1) of the Income Tax Act, 1952, irrespective of the motive moving the company. As Mr Warner was required to entertain there only on occasion, the £350 was not an expense incurred 'wholly, exclusively and necessarily in the performance of' Mr Warner's duties. Accordingly the full £350 was chargeable to tax. (*The Times*, July 8th.)

The Functions of Income Tax Commissioners

UNTIL 1953 the provisions for granting income tax relief by setting off a loss in the same year had two oddities. In the first place, there being no express provision for appeal from the General Commissioners to the High Court, it was held that no such right of appeal existed. In the second place, although the taxpayer had to notify the Inspector of his claim, there was no express provision requiring the General Commissioners who dealt with the claim to hear any objections by the Inspector. The Finance Act, 1953, made provision for appeal (on a point of law) to the High Court and at the same time provided that any objection by the Inspector was to be dealt with by the Commissioners in the same way as an ordinary Schedule D appeal. It now transpires that in so far as it was thought that specific provision had to be made for objection by the Inspector, such an idea was erroneous. In *Hood Barrs v. C.I.R.* (38 A.T.C. 377; 39 A.T.C. 65) there was a loss claim in relation to years unaffected by the Finance Act, 1953. The claimant intimated to the Inspector that the claim was being made but sent the computations to the General Commissioners direct. These Commissioners issued a 'directive' to both sides as to how the losses were to be computed, but then met in private and issued to the taxpayer certificates of loss in amounts actually exceeding what he had claimed. Both divisions of the Court of Session made an order of *certiorari* quashing these certificates on a number of grounds, including the ground that it was contrary to natural justice for Commissioners to grant loss relief without giving the Revenue an opportunity to make submissions. The taxpayer then appealed to the House of Lords whose affirmation of the Scottish Courts' decision was announced on July 6th (according to *The Times* of July 7th). Lord Reid said it was clear that no tribunal, no matter how informal, could be entitled to reach a decision against any person without giving to him some opportunity to put forward his case.

¹ H.M.S.O. 2s 6d net.

Stamp Duty Appeal Succeeds

AN exceedingly rare event occurred this month; the Court of Appeal decided a stamp duty appeal in favour of the taxpayer. The case arose out of the giving of a bank guarantee for the payment of the purchase money under a contract to buy shares. The Crown claimed *ad valorem* duty at 5s per £100 on the maximum amount payable under the guarantee, on the ground that the document containing the guarantee was the primary security for the payment of the purchase money. The High Court, and now the Court of Appeal, have held (according to *The Financial Times* of July 5th) that the contract of purchase of the shares itself was the 'primary security' (notwithstanding that it was not stampable *ad valorem* at all) and that accordingly the guarantee was merely a collateral security chargeable to a maximum stamp duty of 10s. Lord Justice Donovan dissented on the ground that as the sale agreement was never within the appropriate head of charge (mortgages etc.) it could not be the primary security for this purpose, whatever the meaning and scope of the word 'security' as used in the heading.

The Tyranny of Tipping

STRONG men of iron will whose snap decisions are the envy of their associates, have been known almost to perish in an agony of doubt when trying to make up their minds how much to give the hotel menial hovering expectantly on the perimeter of the swing doors. Too much might engender a spirit of greed in the recipient; too little might stigmatize the donor as mean. Is it necessary to give a *pourboire* at all? How did Rockefeller get away with never tipping more than a dime? Why is the small change in one's trouser pocket never in the right denominations of coin? Was 10 per cent added to the bill and did that cover casual gratuitants? These and other awkward questions cloud the mind of the tycoon as he approaches the point of contact. A coin passes. There is a moment of suspense until the lackey by uttering a few hackneyed words indicates that he is appeased. Then the swing doors are set in motion and the free and fresh night air acts as a reviver. Another crisis is over.

Those who have not rationalized the personal problem of tipping may find guidance in an article in the July issue of *Which*, published by the Consumers' Association Ltd. It explains who, what, why, when, where and how to tip and quotes actual amounts for occasions. The questions which every would-be tipper will probably ask himself after reading the article are - am I paying willingly for genuine extra services rendered or am I simply making up the recipient's wage to the rate for the job? If the latter - was my bill less than it might have been by the amount of the tip I am about to bestow? If none of the above points applies - am I merely conforming to a rigid and tyrannical convention?

Verification on some of these matters could be obtained by examining the accounting and costing systems of the establishment being patronized but this would be an impracticable step for a mere customer and one that might well be resented by the management. The line of lesser resistance is to bow to custom or to make some (invariably undignified) subterfuge to avoid the imposition - in short, to tip or run.

Banker Trustee to Pay Damages for Breach

ON July 6th, Mr Justice Wilberforce ordered Messrs Coutts & Co, bankers, to pay to the capital account of a settled fund of which they were trustees, a sum of £29,160, and to account for the withdrawal fees charged by them in respect of advances wrongly made by them out of the trust fund and amounting to the £29,160. His lordship also ordered that, if necessary, fit and proper persons be appointed trustees of the settlement, under Section 41 of the Trustee Act, 1925, in place of the bank.

The proceedings, reported in *The Times* of July 7th, as *In re Pauling's Settlement Trusts; Younghusband and others v. Coutts & Co*, arose out of advances made by the bank, as trustee, to beneficiaries of the settlement, and the purchase by the bank of a house in the Isle of Man, at a cost of £8,450. Instead of benefiting the beneficiaries in whose favour the power to advance was conferred, the advances had benefited the beneficiaries' parents. His lordship stressed that there was no suggestion that Messrs Coutts & Co had made any profit out of the transactions. If they had erred, their error consisted of a failure to appreciate or act up to the standard of care required of a trustee, and more particularly in a lack of firmness in the face of the importunities of Commander Younghusband (father of the beneficiaries) to raise money out of the settlement. His lordship added that the Commander had been made bankrupt in the Isle of Man in 1958 and had since withdrawn to South Africa.

Quality Control in Industry

AT a meeting last week of twenty-two organizations representing industry and including the T.U.C. and Government departments, it was decided to establish a National Council for Quality Reliability. Among those at the meeting were Mr P. F. Carpenter, F.C.A., Vice-President of The Institute of Chartered Accountants in England and Wales, and Mr Derek du Pré, Secretary of The Institute of Cost and Works Accountants. Other professional institutions, notably on the engineering side, were also represented.

Sir Charles Norris, Director of the British Productivity Council, which has campaigned for quality control for several years has said that the new council will act as a centre of information, advise on quality

control and reliability training courses and will organize conferences. Secretarial assistance is to be provided by the British Productivity Council. The chairman of the new council is Mr Frank Nixon, consulting engineer (quality) at Rolls-Royce Ltd, who is also President of the European Organization for Quality Control.

The British Productivity Council has emphasized this week that the problem is to convince the smaller firms (75 per cent of this country's manufacturing concerns employ less than one hundred people) that quality control is something they cannot afford to be without. The world-wide interest in the subject, which means an interest in the subject by Britain's competitors in the export market, is illustrated by the London Conference for the European Organization for Quality Control held last September, which attracted 650 delegates from seventeen countries including two States behind the Iron Curtain.

Transport Costs in Ulster

THE Northern Ireland Development Council has carried out an inquiry into transport costs as a factor affecting industry in Northern Ireland. The investigation was undertaken to get information for companies considering establishing new factories in Ulster.

Fifteen different industries were covered and the inquiry showed that transport costs of finished products from Northern Ireland did not exceed 2.8 per cent of the sales value except in one case. In ten industries, transport costs were below 1.5 per cent of sales. In the case of the transport costs of raw materials into Northern Ireland, these were in all cases below 2 per cent and in most cases were below 1 per cent of the sales value.

The Council says that it is evident from the inquiry that in most industries transport costs are such a small percentage of the cost of production that they are too small to be of any significance. They point out that in any case the area has a labour surplus, which is a big advantage to offset against any small disadvantage of costs.

The one industry where transport costs outwards exceeded 2.8 per cent was milk and food products. Of the fifteen industries covered, eight were branches of the textile or clothing industries.

Another Jasper Company Investigation

IN November 1959 the Board of Trade appointed Mr Neville Faulks, Q.C., and Mr Robert K. Lochhead, F.I.A., F.S.S., to act as inspectors to investigate the affairs of Pilot Assurance Co Ltd. The appointment was made with the leave of the Court under Section 14 (3) of the Insurance Companies Act, 1958.

The report of the inspectors, made in May 1960,

but not published until this week¹ states that, after pursuing an uneventful if distinguished career from 1905 to 1958, the company fell under the control of persons interested in a group of companies associated with the name of H. Jasper & Co Ltd. These persons acquired, in October 1958, 97 per cent of the company's share capital. The board of directors was replaced by a new board consisting of Mr H. O. Jasper (chairman), Mr F. Grunwald (managing director), Mr W. Brueckmann and Mr W. G. Wilson (the former manager and secretary). Mr Wilson was appointed general manager, and Mr P. Rose was appointed secretary.

The new board immediately arranged for the company to borrow £250,000 from Martins Bank, secured on the company's whole portfolio of mortgages amounting to over £600,000. Within about a week thereafter a cheque for £51,002 had been drawn in favour of H. Jasper & Co and a cheque for £150,000 had been drawn in favour of Harewood & Co's clients' account (a firm of solicitors of which Mr Grunwald was a partner). By December 2nd, 1958, the company had invested £228,484 in the ordinary shares of five of the companies in the Jasper group, and controlled by Pilot's new board (excluding Mr Wilson). Mr Grunwald, admitting he had no experience of managing a life assurance company or investing its funds, told the inspectors that these investments were to diversify the Pilot assets. Among the purchases was a block of shares sold by Mr Jasper and Mr Grunwald at a profit of £12,500; they having themselves bought this block in the preceding August. At the time that dealings in the £228,484 shares were suspended, in November 1959, they had fallen to £133,500 in value.

Subsequent to the making of the report another insurance company undertook to reinsure all the Pilot insurance business, thus removing all doubts about the ability of Pilot to meet its obligation to its policy-holders.

Truck Acts Report

THE report of the committee appointed in August 1959 to review the Truck Acts was published as this issue went to press. Their verdict is that the Acts which were passed between 1831 and 1940 to protect the wages of workers are now limited in application and out of date. In fact, they can have the effect of preventing employers in some instances from providing benefits and allowances additional to wages.

The committee recommend that the Acts should be repealed, and replaced by new legislation, wider though less restrictive in its coverage, and in keeping with present-day conditions.

We shall deal more fully with the report in next week's issue.

¹ H.M.S.O. 1s 9d net.

Tales of a Tax Man

by HAROLD E. COX

3 - WORDS, AND MORE WORDS

IN a previous article I acknowledged the difficulties of writing concise and simple English, free from officialese and commercial jargon - what Mr Polly would describe as 'zealacious commerciality'. Revenue officials have no monopoly in the incomprehensible. I once received the following letter of explanation from a solicitor in reply to an inquiry concerning the identity of a Mr Green:

'Mr S. G. Green was not the son of Mrs Ellen Green, deceased. Mr S. G. Green married Mrs J. W. Green and the latter's mother married as her second husband Mr S. G. Green's father. We trust the position is now clear.'

It would perhaps have been easier to have plotted a graph or to have made an action painting of it.

Here is another somewhat similar puzzle in words. A man had been asked why his earnings had fluctuated so much and he wrote in reply: 'Some weeks I am off all the week, some weeks I am off three weeks together. And other weeks I am only off a fortnight.' You can readily see his dilemma and also appreciate the difficulty of describing the circumstances in mere words.

And yet some people have no such problem. How much more pungent and clear is the following: 'I have no wife, no children, no property, no dividends and no problems - except you.'

And also this request from a lady: 'Please send me a form to put a baby on.' This is possibly the final answer to all those questions about the usefulness of official forms. Or perhaps better still: 'How much do you usually allow for one wife, two children, and four overalls?'

The primary aim in all commercial letter writing should be clarity and completeness. Make up your mind what has to be said and say it plainly. This presupposes that you know your facts and have marshalled them in logical sequence. Dr Johnson once rebuked Boswell for his somewhat pretentious style: 'Don't, Sir, accustom yourself to use big words for little matters.'

Lord Macnaghten made one of the best known judicial utterances on the subject of taxation in one short, simple sentence: 'Income tax, if I may be pardoned for saying so, is a tax on income.' (*London County Council v. Attorney-General* 1901.) This was, I think, at least equalled by the schoolboy who, in an examination was asked to define 'income'. He did so thus: 'Income is a yearly tax.'

In the quest for simplicity and conciseness there is hardly any real need to be either brusque or cryptic. An accountant friend of mine (repeat - friend) is allergic to most inspectors of taxes. From time to

time his hackles are raised by a long verbose letter from some inexperienced, or unthinking, inspector concerning the accounts of a small trader. He will reply quite deliberately something like this: (1) No. (2) No. (3) It could be. (4) Yes. This is compression taken to its utmost limits, maybe, but the answers are there and, presumably, no one could reasonably cavil at them.

An attempt to say too much in too few words may have been responsible for the following gaffe, in the rules of a sick fund of a manufacturing concern:

'Rule 10. No benefits shall be paid to female members while in a state of pregnancy unless arising from an accident caused at work.'

The official practice of writing multi-question letters on relatively minor matters seems to have been growing in recent years. I have heard many accountants complaining about letters containing a dozen or more questions on the accounts of a small trader. It has been suggested to me that letters, coming from a number of tax offices, are so similarly worded that the clients' names could be exchanged without any serious confusion being caused.

Maybe there is some lack of perspective and sense of proportion but it arises inevitably from the present methods of training inspectors. They are all supplied with the same study handbooks; they all attend training centres where they are fed a uniform diet; they work the same examples and sit the same tests. Eventually there emerges a mass produced inspector whose thought processes have been canalized. Their responses to the stimuli of accounts are thus conditioned. Pavlov did it with dogs. This is a digression for the benefit of those accountants who have had a dig at me from time to time.

We all spend a great deal of our time dealing with correspondence and it can grow dreary if allowed to become stereotyped and mechanical. I have always enjoyed letter writing and whenever possible I used the lighter touch. When an accountant wrote me an ill-tempered letter I commented on it suggesting he must be 'several degrees under'. Occasionally, accountants submitted claims which were somewhat unreasonable and possibly frivolous. One such wrote claiming £10 10s for the cost of replacing his client's spectacles. I replied that the spectacles were no doubt to correct his client's defective vision and were as much as a part of an individual's personal equipment as my dentures or Mrs Accountant's corsets!

I had tried in vain for several months to get a reply from Messrs John Smith & Co. At last I wrote:

'Dear & Co,

'Will you please confirm that Mr John Smith is still alive.

Yours etc.'

I had a reply by return.

Many years ago I sent a carefully worded inquiry to a lady who showed some substantial dividends in her income tax return for the first time. Back came the delightful reply: 'Don't worry, darling, the money was left to me.'

Finance and Commerce

Courtaulds Sales

THE evolution of company reporting is a gradual process. Gradually, what was considered impossible or 'against the best interest of shareholders', becomes possible and slowly the exception becomes the rule and the rule becomes accepted. The process has now overtaken Courtaulds, whose accounts, reprinted this week, show a sales value figure for the first time.

The decision to include that figure could not have been taken at a better time. In an interim statement, shareholders had been told that 1960-61 earnings might not reach the previous year's level. The preliminary figures, without the sales figure, confirmed the interim forecast rather more forcefully than the forecast itself may have suggested.

The full accounts have now put the facts into perspective. Not only did the profits fall but they fell by some £3 million on trading against the background of a £32 million increase in sales. Higher costs, intense competition and a squeeze on profit margins were the familiar causes of the profit setback, but it takes the sales figure to put the whole thing into gear.

Very Different

The great Samuel Courtauld would have been aghast at the merest suggestion that Courtaulds should show in its accounts anything but the barest necessities ordained by the law. But Courtaulds is a very different organization from what it was in the days of the great man whom the financial press so irreverently dubbed 'Silent Sam'.

Now Courtaulds' interests fall into eight main categories: fibres, fabrics, chemicals, woodpulp, packaging, paint, plastics and engineering. Diversification has caught up with Courtaulds as it has done with so many other industrial groups. But Courtaulds' widening of interests has more logic in it than most.

The latest move to develop outside rayon and outside the United Kingdom is the purchase, for £1.5 million, of a 4 per cent equity interest in Koppers Company Inc, one of the leading United States chemical and plastics organizations. The object is to 'explore areas of mutual interest' and, in the first instance, this mutual exploration is expected to be concentrated in plastics and film.

What We Make

HAVING mentioned - more than once - company reports that give no indication of the business carried on, there is a wealth of satisfaction in placing

on record the fact that Jonas Woodhead & Sons Ltd, 'Suspension Specialists', whose chairman is Mr Michael Moore, F.C.A., produces - 'air, oil and rubber suspension; laminated and coil springs; torsion bars - round, square and laminated; anti-roll bars of all types; hydraulic shock absorbers for road and rail cars, also for machine and engine mountings; friction dampers for road and railway vehicles and signalling equipment; specialized precision engineering products, tool making and design; disc springs for electrical and heavy mechanical equipment, gas holders and machines of all types; pressed steel products light and medium; fabricated steelwork of all types; flat, round and hollow steel bars; starter gear rings of all types; structural steelwork for buildings, bridges, pontoons and signal gantries; steel forgings, light and medium; conveyor patented idlers for mines, quarries and mechanical handling; agricultural implements; farm buildings, cattle grids, etc.'

It is a long list - but why not? At least, it is a welcome alternative to the exasperating reports that are clueless. Maybe some companies with widespread interests would leave more activities unstated under the embracing 'etc.' than specifically stated.

For this good example, therefore, tribute must be paid to Mr Moore.

Too Much?

SOME of the company reports that come to our notice are positively crammed with graphs and such-like statistical information.

In the report of Laporte Industries Ltd, the chemical manufacturers, there are seven of these 'aids to understanding' in colour; but some of them take quite a bit of studying before their purpose becomes apparent. When understanding does arrive, one has a feeling that a simple column of figures would have told the story more efficiently.

Take 'Group income before taxation 1952-61', for instance. This consists of ten columns in blue against a grey background. Each year the column is higher except for 1953 and 1959. The scale is by horizontal lines, but being graded in half-millions, only an approximate conversion of a column into actual money is possible; and the fact that the 1961 column is nearly up to £3½ million while the 1952 is under £1 million can be explained, though not necessarily so, by acquisition of other businesses.

Another of these 'aids' is 'Funds attributable to ordinary capital, 1952-61'. In 1952 it was £3 million, and in 1961 £21.3 million, figures for the intervening years showing the growth year by year. But the figures tell the story better than any amount of colour graph.

Other graphs include 'Fixed assets at cost', 'Total net assets', 'How the cumulative resources of the group have been used' and 'Market value of issued ordinary capital'. Far be it from us to discourage any effort to make a report informative, but here there does seem a tendency to 'blind by science'. Clarity, surely, should be the watchword.

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31st March 1961 (Note 1)*

	1961 £	1960 (Note 2) £
Group Sales to external customers (Note 3).....	171,921,840	139,924,379
Less: Cost of sales including depreciation and research development.....	156,918,578	121,899,024
GROUP PROFIT FROM TRADING (Note 4).....	15,003,262	18,025,355
DIVIDENDS AND INTEREST		
Trade Investments.....	3,143,966	2,290,198
Government Securities and other Investments.....	912,676	995,607
Deduct: Interest on Debenture Stocks and other loans.....	19,059,904	21,311,160
	363,360	267,117
GROUP PROFIT BEFORE TAXATION.....	18,696,544	21,044,043
Deduct: Taxation (see opposite).....	8,235,169	9,176,682
GROUP PROFIT AFTER TAXATION.....	10,461,375	11,867,361
Deduct: Minority Shareholders' Interest.....	638,945	649,837
COURTAULDS, LIMITED INTEREST IN GROUP PROFIT (of which £7,499,279 = £9,833,904 in 1960 - is dealt with in the accounts of Courtaulds, Limited).....	£9,822,430	£11,217,524

COURTAULDS, LIMITED INTEREST IN GROUP PROFIT
APPROPRIATED as follows:

Transfer to Capital General Reserve (of which £3,750,000 - 1960 £3,750,000 - is in respect of increased cost of replacement of fixed assets (Note 4)).....	2,323,151	1,383,620
Subsidiaries.....	2,066,838	5,113,065
Courtaulds, Limited.....	4,389,989	6,496,685
	5,432,441	4,720,839
Dividends (less tax).....	£9,822,430	£11,217,524

TAXATION

United Kingdom Taxation (after benefit of £1,035,000 from investment allowances - £570,000 in 1960).....	1,503,528	1,261,161
Profits Tax.....	5,271,673	6,103,784
Income Tax based on profit for the year.....	656,996	930,338
Taxation Abroad.....	7,431,197	8,293,283
	883,972	881,399
Add: Taxation Deferred by Accelerated Depreciation Allowances	£8,235,169	£9,176,682

*Notes are on pages [81 - 82].

COURTAULDS, LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET 31st MARCH 1961 (NOTE 1)*

	1961 £	1960 £
* CAPITAL OF COURTAULDS, LIMITED		
Preference Stocks		
5 per cent. Cumulative First Preference Stock - Authorised and Issued...	8,000,000	8,000,000
6 per cent. Cumulative Second Preference Stock redeemable at par on or after 31st March 1977		
Authorised £15,000,000 (£9,512,500 in 1960) (£1 shares where unissued) Issued.....	9,512,500	9,512,500
Ordinary Stock		
Authorised £100,000,000 (£65,000,000 in 1960) (£1 shares where unissued) Issued.....	78,985,413	58,912,456
RESERVES		
Capital (Note 7).....	96,497,913	76,424,956
Revenue (Note 7).....	59,631,055	73,396,828
	11,311,318	11,012,419
CAPITAL AND RESERVES RELATING TO THE MEMBERS OF COURTAULDS, LIMITED.....	167,440,286	160,834,203
Capital and Reserves of Subsidiaries relating to Minority Shareholders.....	9,001,560	8,995,549
Secured and Unsecured Loans of Subsidiaries (Note 12).....	6,530,500	7,143,919
FUTURE TAXATION		
U.K. Income Tax based on profit for the year.....	4,006,296	5,568,371
Taxation Deferred by Accelerated Depreciation Allowances.....	20,791,946	19,471,416
TOTAL CAPITAL EMPLOYED.....	£207,770,588	£202,013,458
FIXED ASSETS (Note 8).....	126,116,583	119,939,511
TRADE AND OTHER INVESTMENTS (Note 9).....	15,918,246	12,725,746
GOVERNMENT SECURITIES (Note 10).....	12,200,189	20,948,468
NET CURRENT ASSETS		
Stocks in Trade, Stores etc.....	44,375,004	41,420,995
Debits, Amounts Recoverable and Payments in Advance.....	28,252,872	23,193,563
Tax Reserve Certificates.....	505,075	240,425
Treasury Bills and Money on Deposit.....	5,386,551	6,808,456
Balances at Banks and Cash in Hand.....	4,915,608	4,853,502
Current Assets.....	83,435,110	76,516,941
Less: Current Liabilities, Provisions and Dividends (Note 11).....	29,899,540	28,117,208
Net Current Assets.....	53,535,570	48,399,733
NET TANGIBLE ASSETS REPRESENTING CAPITAL EMPLOYED.....	£207,770,588	£202,013,458

*Notes are on pages [81-82].

J. HANBURY-WILLIAMS
A. H. WILSON
Directors

1. PERIOD OF ACCOUNT AND BALANCE SHEET DATES

The period of account referred to herein as "the year" is the year ended 31st March 1961 with the exception of:-

(a) Certain companies abroad and in the U.K. the accounts of which cover a period of one year ended on 31st December 1960, 31st January 1961 or 28th February 1961.
 (b) A group of companies in Australia and New Zealand the accounts of which cover a period of nine months ended 30th September 1960.
 (c) Minor companies recently formed or acquired the accounts of which cover various periods of more or less than one year ended 31st March 1961.

The Balance Sheets of Courtaulds, Limited and all its subsidiaries are made up as at 31st March 1961 except for the companies referred to in (a) and (b) above. The Balance Sheets of those subsidiaries are made up at the dates mentioned to avoid (i) undue delay in the preparation of the Group accounts, or in regard to companies abroad, an increased liability for taxation, and (ii) administrative difficulties in the case of recently acquired companies in the United Kingdom.

2. The comparative figures in the Group Profit and Loss Account for 1960 do not include the results of Pinchin, Johnson & Associates Limited which was acquired at the end of that year.

3. GROUP SALES TO EXTERNAL CUSTOMERS

Chemicals and woodpulp are produced within the Group for use in the manufacture of fibres, packaging film, plastics and paint, and fabric is woven and knitted from yarn supplied by units of the Group as well as from outside sources. Sales by one unit of the Group to another of such products which are the raw material of the next stage of manufacture are made at market prices; these sales, after appropriate adjustment for stocks, amounted to £18,400,000 in 1961 (£17,000,000 in 1960) and are not included in Sales in the Group Profit and Loss Account. The benefit from these arrangements is, however, reflected in the amount of Group Profit from Trading.

4. The following items have been charged in arriving at the Group Profit from Trading:

	1961	1960
Depreciation	£ 8,090,299	£ 6,964,001
The extra amount to take account of the estimated current cost of replacement of fixed assets would be £3,750,000 (1960 £3,750,000) which has been retained in the business and forms part of the transfer of £4,389,989 to Capital General Reserve		
Remuneration from all sources of the Directors of Courtaulds, Limited for services to Courtaulds, Limited and Subsidiary and Associated Companies	19,500	12,837
Other Emoluments:		
Salaries	181,698	176,703
Payments to Senior Executives' Pensions Fund (excluding £37,870 (1960 £37,870) charged against Provision towards Senior Executives' Pensions)	84,130	84,130
Directors' and past Directors' pensions arising from executive appointments paid to 31st December 1959 (commenced thereafter)	22,322	22,322
Auditors' Fees and Expenses	71,978	58,167

5. **FOREIGN CURRENCIES**
 Fixed assets and investments have been converted into sterling at the rates ruling at the dates of acquisition and current assets, liabilities and future taxation have been converted into sterling at the rates at which the currencies could have been sold at 31st March 1961.

6. CONTRACTS FOR CAPITAL EXPENDITURE

Commitments outstanding on Capital Account at Balance Sheet dates in respect of uncompleted contracts at those dates in so far as they are not included in the current liabilities in the Balance Sheets are approximately £1,000,000 (£8,750,000 for 1960) for the Group and to approximately £5,000,000 (£4,250,000 for 1960) for Courtaulds, Limited. There were also commitments for Courtaulds, Limited to its subsidiaries for provision of further finance up to £340,000 (£1,525,000 for 1960).

7. RESERVES AND MOVEMENTS THEREIN

	Group	Courtaulds, Limited
	£	£
Capital Reserves		
(a) Share Premium Account as at 31st March 1960	14,820,233	14,820,233
Amount capitalised	14,820,233	14,820,233
Amounts arising during the year on issue of Ordinary Shares to:		
(i) Ordinary Shareholders of Pinchin, Johnson & Associates Limited	503,276	503,276
(ii) Co-partners	178,628	178,628
As at 31st March 1961	681,904	681,904

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(b) General as at 31st March 1960	58,576,595	41,708,100
(i) Amount capitalised	4,897,616	4,897,616
(ii) Adjustment of taxation deferred by accelerated depreciation allowances at 31st March 1960 consequent upon changes in rates of taxation	631,246	370,133
(iii) Surpluses on sales of government and other securities and of technical information, and other capital receipts (net)	1,531,912	1,531,912
(iv) Provision against trade investments	500,000	500,000
(v) Provision against investments in subsidiaries	340,653	340,653
(vi) Transfer to Revenue Reserve	298,899	2,066,838
(vii) Transfer from Profit and Loss Account	4,389,989	39,198,448
As at 31st March 1961	58,949,151	
Total Capital Reserves	£59,631,055	£39,880,352
As at 31st March 1961		
Revenue Reserve	11,012,419	8,949,024
As at 31st March 1960	298,899	
Transfer from Capital General Reserve		
As at 31st March 1961	£11,311,318	£8,949,024

8. FIXED ASSETS

	1961	Group	1960
	£	£	£
Land and Buildings	55,857,917	53,070,236	21,761,631
Depreciation	14,530,130	13,399,285	5,906,569
Balance	41,327,787	39,650,951	15,855,062
Plant, Machinery and Equipment	138,620,785	129,617,531	49,996,492
Depreciation	53,831,989	49,348,971	17,574,491
Balance	84,788,796	80,268,560	32,422,001
Total Fixed Assets	194,478,702	182,687,767	71,758,123
Total Depreciation	68,362,119	62,748,256	23,481,060
Balance	£126,116,583	£119,939,511	£48,277,063

Fixed Assets are stated as follows:

(a) Courtaulds, Limited
 At cost or, if purchased before an independent valuation carried out in 1938/39, on the basis of replacement costs as new in 1938/39. Assets transferred to Courtaulds, Limited from any subsidiary are stated at either their original cost to, or subsequent revaluation by, the subsidiary.

(b) Subsidiaries
 At original cost to the Group company which first acquired them or subsequent revaluation.

Depreciation is calculated as follows:

(a) Courtaulds, Limited
 From the dates of purchase or; as regards assets transferred from any subsidiary, from the dates of purchase or subsequent revaluation by the subsidiary.

(b) Subsidiaries
 From the dates of purchase by the companies of the Group or of subsequent revaluation by the subsidiaries.

The Board of Trade, as empowered by the Companies Act, 1948, has modified the provisions of the Act in regard to the basis of stating fixed assets and the related depreciation.

9. TRADE AND OTHER INVESTMENTS

	Group	Courtaulds, Limited
	1961	1960
	£	£
Trade Investments at cost	17,823,957	14,130,075
Less: Amounts provided or written off	2,419,080	1,919,068
	15,404,877	12,211,007
Other (quoted) Investments at cost (market value - Group £878,949, Company £871,965 - 1960 £496,535)	198,325	191,201
Other (unquoted) Investments at cost	315,044	74,183
	£15,918,246	£12,725,746

12. SECURED AND UNSECURED LOANS OF SUBSIDIARIES

6 per cent. Debenture Stock repayable by 31st December 1969.....	1,400,000	2,000,000
4 per cent. First Mortgage Debenture Stock redeemable not later than 31st December 1978 at 102½ per cent.....	1,576,470	1,691,382
Mortgage Debentures, various issues carrying interest ranging from 3½ per cent. to 6½ per cent. repayable on or before dates ranging from 1970 to 1983.....	1,762,272	1,798,569
Mortgages and Loans.....	396,581	223,951
	5,135,323	5,713,902
Unsecured Loan Stock 5½ per cent. 1959/64 repayable not later than 31st December 1964 at par.....	1,170,677	1,205,517
Unsecured Notes 4½ per cent. 1953/68 repayable not later than 31st December 1968 at 102 per cent.....	224,500	224,500
	£6,530,500	£7,143,919

10. GOVERNMENT SECURITIES	Group 1961 £	1960 £	Courtaulds, Limited 1961 £
At or under cost.....	£12,200,189	£20,948,468	£12,276,657
Value of these Securities at 31st March 1961 at Middle Market prices.....	£12,706,575	£21,685,892	£12,625,325
11. CURRENT LIABILITIES, PROVISIONS AND DIVIDENDS	18,683,618	18,204,155	4,897,072
Trade and other accounts.....	2,100,000	2,301,750	2,301,750
Advance by an associated company.....	1,537,989	1,091,022	273,702
Bank overdrafts (secured £541,235 - 1960 Group £561,455, Company £273,702).....	3,525,180	2,903,234	727,642
Provision for Taxation.....	531,451	404,205	404,205
Provision for Co-partnership Benefit.....	492,309	530,179	530,179
Provision towards Senior Executives' Pensions.....	206,910	206,910	206,910
Dividends (less tax) on Preference Stocks accrued to date.....	2,822,083	2,475,753	2,475,753
Final Dividend (less tax) on Ordinary Stock proposed to be paid on 27th July 1961.....	£29,899,540	£28,117,208	£11,817,213

CITY NOTES

HEAVY new issues calls and the investment restrictions imposed by the knowledge that the Chancellor of the Exchequer is likely to introduce his interim measures before the end of this month have kept the stock-markets on a tight rein. New issues announced this month already total some £90 million and there are signs of flagging in their support.

Some institutional buying of equities has helped to relieve the market dullness but investment policies generally are defensive rather than the reverse. Against this market background and also against that of pressure by the trades unions for higher wages the Trades Union Unit Trust has been finally launched.

With a board headed by Lord Longford, chairman of the National Bank, and with investment advice from M. Samuel & Co, the Trust has been formed as a vehicle for the employment of trades union funds on an income and growth investment basis.

The provision of a ready-made form of well-spread investment rather than any prime intention of hustling the unions into equities is behind the Trust's formation. Units will only be sold to the unions initially in amounts of £1,000 on one subscription day a month, the object being to save costs.

RATES AND PRICES

Closing prices, Wednesday, July 12th, 1961

Tax Reserve Certificates: interest rate (26.11.60) 3%

Bank Rate	
May 22, 1958	5½%
June 19, 1958	5%
Aug. 14, 1958	4½%
Nov. 20, 1958	4%
Jan. 21, 1960	5%
June 23, 1960	6%
Oct. 27, 1960	5½%
Dec. 8, 1960	5%

Treasury Bills	
May 5	£4 7s 4·27d%
May 12	£4 6s 5·04d%
May 19	£4 8s 3·18d%
May 26	£4 8s 8·74d%
June 2	£4 8s 9·61d%
June 9	£4 9s 4·14d%
June 16	£4 10s 0·42d%
June 23	£4 10s 8·47d%
June 30	£4 10s 8·94d%
July 7	£4 10s 8·80d%

Money Rates	
Day to day	3½-4½%
7 days	4½-4½%
Fine Trade Bills	
3 months	5½-6%
4 months	5½-6%
6 months	5½-6½%
Bank Bills	
2 months	4½-4½%
3 months	4½-4½%
4 months	4½-4½%
6 months	4½-4½%

Foreign Exchanges	
New York	2·78½-1½
Montreal	2·87-1½
Amsterdam	10·00½-1½
Brussels	138·76½-1½
Copenhagen	19·30½-31½
Frankfurt	11·07½-08
Milan	172½-8½
Oslo	19·97½-7
Paris	13·64½-1½
Zürich	12·01½-1½

Gilt-edged (revised List)	
Consols 4%	58½
Consols 2½%	38½
Conversion 5½% 1974	91½
Conversion 5% 1971	80½
Conversion 3½% 1969	83½
Conversion 3½%	52½
Exchequer 5½% 1966	98
Funding 5½% 82-84	91½xd
Funding 4% 60-90	86½
Funding 3½% 99-04	97½
Funding 3% 66-68	81½
Funding 3% 59-69	80½
Savings 3% 60-70	77½
Savings 3% 65-75	68½xd
Savings 2½% 64-67	83½
Treasury 5½% 2008-12	87½
Treasury 5% 86-89	82½
Treasury 3½% 77-80	68½
Treasury 3½% 79-81	67½xd
Treasury 2½%	38½
Victory 4%	96
War Loan 3½%	52½

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Henry Ansbacher & Co v. C.I.R.

In the Court of Appeal – July 4th, 1961

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice HARMAN and Lord Justice DONOVAN)

Stamp duty – Purchase of stock units – Guarantee – Whether collateral, auxiliary, additional or substituted security – Whether only or principal or primary security – Stamp Act, 1891, Schedule I – Finance Act, 1949, Section 35 (1).

The appellant purchased ordinary stock units of the Oriental Telephone and Electrical Co Ltd. The consideration was the payment by a stated date of the sum of 61s for every stock unit, and the payment of another sum which was dependent upon the amount of the compensation receivable from the local government.

By clause 10 of the agreement, which was not under seal, a sum became payable to trustees for the shareholders in the appellant company, and under clause 11 the appellant procured that that payment should be guaranteed, to the extent of £750,000, by the National Bank Ltd. A guarantee to this effect was executed by the bank. It was expressed to be supplemental to the sale agreement, and the bank guaranteed to the extent of £750,000,

‘the due and punctual payment to the trustees of whatever sum shall in the event be payable to the trustees on the second completion date under the terms of clause 10 of the said agreement’.

The second completion date was the date when the final payment for the stock had to be made. By virtue of Section 31 (1) of the Finance Act, 1949, the sale agreement was exempt from stamp duty.

The respondents assessed the amount of stamp duty on the guarantee at 5s per cent, that is to say, at £1,875, and contended that the case was within the heading,

“Mortgage, bond, debenture, covenant. . . . Being the only or principal or primary security . . . for the payment or repayment of money”, or within the description “Being a collateral, or auxiliary, or additional or substituted security . . . where the principal or primary security is duly stamped”.

The appellant contended that the correct amount of duty was 10s.

Held (affirming the judgment of Mr Justice Danckwerts (Lord Justice Donovan dissenting)): the guarantee was a collateral, auxiliary, additional or substituted security to a security not within the description ‘Mortgage, bond, debenture, covenant’, and was not an only, principal or primary security; and was liable to a stamp of only 10s.

Brown v. Bullock

In the Court of Appeal – June 26th, 1961

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice HARMAN and Lord Justice DONOVAN)

Income tax – Expenses – Bank manager – Membership of club – Subscription reimbursed by bank – Whether deductible from emoluments – Income Tax Act, 1952, Ninth Schedule, paragraph 7.

The appellant was appointed the manager of a branch of the Midland Bank. On the appointment of a manager of a branch the manager is instructed that he is to foster local contacts, and that he should join the club best suited for that purpose. If a prospective manager refuses to join a club, his refusal would not be accepted without very good reason, but it would not necessarily cause him to lose the appointment; but a manager who refuses to join an appropriate club would be unlikely to be appointed.

The managers of the branch in question had been elected members of the Devonshire Club for forty years past, and the appellant was elected a member on his appointment. The annual subscription was £21. The appellant's entrance fee and subscription were reimbursed to him by the bank. The appellant used the club for returning hospitality, and he lunched there fairly frequently so as to keep in touch with the members. He rarely used the club for any other purpose. When he was appointed as manager of the branch, the appellant was already a member of the Royal Automobile Club, and by agreement with the bank he continued his membership of that club; and as he was able to enjoy some personal advantage therefrom, it was agreed that the bank should reimburse only half the subscription of £12 12s.

The appellant claimed to deduct the £21 and the £6 6s in computing his emoluments under Schedule E. The General Commissioners decided that although the appellant was necessarily obliged to incur the expenses of the subscriptions, the expenditure was not wholly, exclusively and necessarily made in the performance of his duties; and that therefore the deduction was inadmissible.

Held (affirming the judgment of Mr Justice Danckwerts): the General Commissioners' decision was correct.

Freedland v. Jenkinson

In the Court of Appeal – July 4th, 1961

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice HARMAN and Lord Justice DONOVAN)

Income tax – Director of companies – Purchase of stills – Put into working order – Sold to two of his companies – Whether adventure in the nature of trade – Income Tax Act, 1952, Section 526.

The respondent was a director of each of two companies, in one of which he owned a large amount of the share capital, and he owned all the shares in the third company of which he was a director. In April

1951 he purchased two large stills from the Distillers Co Ltd. The machinery of the stills was clogged by a resinous substance. The appellant inspected the stills before purchasing the two for £160. He cleaned the stills, and put them into working order, and sold them to two of his companies for £3,750 each.

The General Commissioners decided that the transaction was not an adventure in the nature of trade.

Held (reversing the decision of Mr Justice Danckwerts): the decision of the General Commissioners could not be disturbed.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Income Tax and Business Expenses

SIR, — The *Financial Times* of June 27th reported that Lord Evershed said recently 'I hold a very strong view and shall go on contesting this anarchistic distinction between D and E'. His lordship's remarks remind us of a case in which a married taxpayer sought to be assessed under Schedule D, primarily so that there might be deducted from his income the commission that he paid to the agent who secured the engagements on which his livelihood depended. His application was rejected and so he was advised to form a company which would be entitled, without question, to deduct the agent's commission. The company would also be entitled to deduct from its profits, directors' remuneration to the wife thereby reducing the couple's burden of taxation.

Devices of this kind are common but still unpalatable to the many conscientious practitioners who agree with Lord Evershed that 'Income tax is a sort of game, a battle of ingenuity unrelated to any principle, any common-sense or fiscal consideration. It is extremely bad for the respect of the law, seriously damaging to its prestige and consequently to the welfare of society'.

Yours faithfully,
B. DAVIS & CO.

London, SW1.

Capital Budgeting

SIR, — In your issues of June 17th and 24th, Mr N. H. Green has provided a lucid explanation of the discounting method of evaluating capital projects. One may feel happy that this is a valid and useful concept for comparing alternative projects or making comparisons with previous projects *when computed on the same basis*. Some may not be so happy when he appears to infer, in his concluding paragraphs, that comparisons can be made between this rate and the rates which other companies in the same line of business are able to earn, or about comparing reported 'actual' returns with those projected.

Mr Green gives a simple example of the investment of £1,000 with subsequent annual incomes (before depreciation provisions) of £400, £500 and £600, and deduces by the rules of the discounting method that this gives a rate of return of 21.6 per cent.

Looked at from a different angle his example re-stated in more orthodox accounting form could appear:

Profit and Loss Account				
Year	1	2	3	(Average)
	£	£	£	£
Trading profit ..	400	500	600	500
Provision for replacement of depreciation	184	323	493	333
Net profit (a) ..	£216	£177	£107	£167

Capital Employed at Beginning of Period				
Year	1	2	3	4
	£	£	£	£
Fixed assets ..	1,000	1,000	1,000	1,000
Cum. depreciation ..	—	184	507	1,000
(b)	£1,000	£816	£493	—
Rate of return (a)/(b)	21.6%	21.6%	21.6%	Nil

Even if the same none too common rules are applied to the timing of amortization, is it not as likely that what will appear in reported results (assuming that all profits were, in fact, distributed) would be:

Capital Employed at Beginning of Period				
Year	1	2	3	4
	£	£	£	£
Fixed Assets ..	1,000	1,000	1,000	1,000
Cum. depreciation ..	—	184	507	1,000
(b) ..	1,000	816	493	—
Current assets ..	—	184	507	1,000
(c) ..	£1,000	£1,000	£1,000	£1,000
Rate of return (a)/(c)	21.6%	17.7%	10.7%	(av. 16.7%)

Plus Rate on fresh earnings on current assets (or on their re-investment in fixed assets) (d) ..

It is for reasons such as this (apart from others) that it is doubted whether, at present, *external* industrial comparisons with current projects are either fully valid or obtainable.

Yours faithfully,
J. A. SCOTT.

Sale, Cheshire.

[Mr Green writes: The balance sheets above indicate a capital of £1,000 invested entirely in fixed assets in year 1 and entirely in current assets in year 4, which is

an artificial situation. In any large company there is a constant process of investment and disinvestment which results in fairly steady ratios between fixed assets, current assets (stocks, debtors, etc.) and cash. The average actual return on the investment in fixed and current assets in any business can certainly be used as a rough guide to the return to be required on future investments provided that the bases of computation are similar. I agree that comparisons with other businesses are more difficult, but only because the information obtained from published reports is usually insufficient to ensure that the figures are truly comparable.]

SIR, - In the third article on 'Capital Budgeting' by Mr N. H. Green, F.C.A., published in the June 24th issue of *The Accountant*, it is stated that in estimating the earnings of a project no form of interest should be charged in the profit and loss account, since the object of the calculation is to express profit as a rate of return (or interest) on the whole capital employed (page 781, 1st column, last paragraph).

I should be interested to learn whether 'interest' includes bank interest, where an overdraft is anticipated throughout the term of the project.

It would seem to me that the bank interest arising from the initial purchase and the bank interest reduction due to savings in operating costs, together with the relative taxation on the interest, form part of the net cash outgoings, and unless they are taken into account a true return on capital employed is not obtained.

Yours faithfully,

Chelmsford, Essex.

R. T. SAMPSON, A.C.A.

[Mr Green writes: For the purpose of assessing and comparing the profitability of a number of investment proposals, it is usually preferable to calculate the return on the whole capital employed, without taking into account sources of finance. If, as your correspondent suggests, the whole investment is to be borrowed from the bank and the overdraft reduced by subsequent cash incomings, any return on the investment in excess of the bank borrowing rate represents a net gain to the business. However, if it is desired to calculate the return on a particular project for which part of the funds will be obtained from the bank and gradually repaid, I agree that interest could be deducted. In fact, the present value method can be adapted to many different situations once the theory is thoroughly understood.]

Treatment of Superannuation Contributions

SIR, - We have for some years prepared the accounts of a dental practice of two partners, Mr A. and Mr B.; the practice consists almost entirely of National Health Service work.

Profits are shared equally and drawings are equal in all respects save one. Even income tax is settled by each partner drawing a cheque on his private bank account for his personal share of the liability.

In the accounts we credit the gross fees, before the

deduction of superannuation contributions, which are debited to the partners' capital accounts as an additional drawing. Mr A.'s patients and earnings have always slightly exceeded those of Mr B., and his superannuation contributions have therefore been slightly higher. For this reason, and no other, Mr B.'s capital account is now some £200 greater than Mr A.'s.

The partnership deed provides for equal drawings and states that a partner shall refund any excess of drawings over his share of profits. It seems to us that Mr B. could either make an additional drawing of £200 or ask Mr A. to repay this sum to the partnership. This, however, hardly seems equitable in view of the fact that Mr A. has earned more of the firm's profits than Mr B.

It would be possible to debit all superannuation contributions to profit and loss account as a partnership expense, and disallow them in the income tax computation, but our objection to this is that each partner's contributions are personal to him and will govern the pension he will receive on retirement.

We should be interested to hear how other practitioners deal with this problem.

Yours faithfully,

DENTAC.

(H)air of Fantasy!

SIR, - Some time ago one of our typists removed a lock of her hair and put it into an envelope, intending to send it to her husband who was then in the Army. She never did so, however, and the envelope was used recently when remitting a payment to the Collector of Taxes. Dealings with the Inland Revenue are naturally of a formal nature but the collector's reply in this instance was like a breath of fresh air and it was so amusing that we thought you might care to reprint it in *The Accountant*.

'I was very touched by the lock of hair enclosed in the envelope, and for one fleeting moment I indulged in the fantasy of imagining that someone loves me. Being, however, somewhat realistic, I sorrowfully came to the conclusion that such a romantic expression was not intended for a mere "tax-gatherer", and in order not to deprive the rightful recipient, I reluctantly return it herewith.'

When we acknowledged the collector's letter, we referred to the matter as follows:

'I would also like to thank you for having returned to us the lock of hair which was inadvertently enclosed in the envelope, and I would apologize for any disappointment that this may have caused you. I was pleased to see, however, that you did not assume that this was a subtle way of indicating that we felt that we were being fleeced, and I am pleased to say that the lock of hair has now been returned to the original owner.'

Yours faithfully,

G. M. BEALE, A.C.A.,

Chief Accountant,

BRITISH ROPES LTD.

Doncaster, Yorks.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, July 5th, 1961, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr P. F. Granger, President, in the chair; Mr P. F. Carpenter, Vice-President; Messrs J. F. Allan, W. L., Barrows, T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, C. Croxton-Smith, E. Hay Davison, W. G. Densem, S. Dixon, W. W. Fea, Sir Harold Gillett, Bt., M.C., Messrs J. Godfrey, G. G. G. Goult, L. C. Hawkins, D. V. House, J. A. Jackson, H. O. Johnson, W. H. Lawson, C.B.E., H. L. Layton, R. B. Leech, M.B.E., E. N. Macdonald, D.F.C., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., S. J. Pears, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs J. D. Russell, K. G. Shuttleworth, D. Steele, C. M. Strachan, O.B.E., J. E. Talbot, A. H. Walton, F. J. Weeks, M. Wheatley Jones, E. F. G. Whinney, J. C. Montgomery Williams, R. P. Winter, C.B.E., M.C., E. K. Wright, Sir Richard Yeabsley, C.B.E.

Luncheon in Honour of Lord De L'Isle

The Right Hon. The Viscount De L'Isle, V.C., P.C., G.C.M.G., D.L., M.A., F.C.A., Governor-General designate of Australia, was entertained at a luncheon in his honour in the Hall of the Institute on June 27th, 1961, by the President, Vice-President and chairmen of committees of the Council.

Statements on Auditing

I. GENERAL PRINCIPLES OF AUDITING

The Council approved the first of a new series of Statements on Auditing entitled: 1. *General Principles of Auditing*. It will be distributed to members during August 1961, as a supplement for insertion in the *Members' Handbook*. The Statement has been settled by the Council on the report of the Parliamentary and Law Committee, following consideration of a memorandum submitted by the Taxation and Research Committee and of advice given at consultations with counsel.

Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Applications

Chairman, Mr R. P. Winter; Vice-chairman, Mr R. McNeil.

Articled Clerks

Chairman, Mr M. Wheatley Jones; Vice-Chairman, Mr T. A. Hamilton Baynes.

Consultative Committee of Members in Commerce and Industry

Chairman, Mr W. W. Fea; Vice-Chairman, Mr J. Clayton.

District Societies

Chairman, Mr C. Croxton-Smith; Vice-Chairman, Mr J. C. Montgomery Williams.

Finance

Chairman, Sir Harold Gillett; Vice-Chairman, Mr D. A. Clarke.

General Purposes

Chairman, Mr W. L. Barrows; Vice-Chairman, Mr W. H. Lawson.

Investigation

Chairman, Mr D. V. House.

Overseas Relations

Chairman, Sir Thomas Robson; Vice-Chairman, Mr S. J. Pears.

Parliamentary and Law

Chairman, Mr H. A. Benson; Vice-Chairman, Mr C. M. Strachan.

Public Relations

Chairman, Sir Harold Gillett; Vice-Chairman, Mr E. K. Wright.

Chartered Accountants Employees Superannuation Scheme (CAESS)

The Council appointed Mr G. P. Townend, M.B.E., M.A., F.C.A., to the Committee of Chartered Accountants Employees Superannuation Scheme as an 'employers' committee man' to fill a vacancy caused through the retirement of Mr E. W. P. Broad, T.D., D.L., F.C.A., and resolved that the thanks of the Council be conveyed to Mr Broad for his services on the committee since its formation in 1957.

France

The Council received a report from Sir Thomas Robson, who had given evidence on behalf of the Institute on June 22nd, 1961, in Paris before the Pleven Commission on company law in France.

Articles and Examinations

The following applications under various bye-laws relating to articles and examinations have been granted or refused during the six months ended June 30th, 1961:

	Granted	Refused
<i>Bye-law 51.</i> - Waiver of prescribed provisions in articles	1	1
<i>Bye-law 57.</i> - Permission to follow another business or occupation while under articles to the limited extent specified in the application	10	2
<i>Bye-law 58 (c).</i> - Permission to spend up to six months in an industrial, commercial or other suitable organization during articulated service	25	2
<i>Bye-law 61.</i> - Reduction in service under articles	14	3
<i>Bye-law 63 (c).</i> - Reduction in service under articles for former regular officers	2	1
<i>Bye-law 79.</i> - Exemption from the Preliminary examination by virtue of age and experience in a member's office ..	13	1
<i>Bye-law 81.</i> - Permission to sit the Intermediate examination earlier than normally eligible	2	2

	Granted	Refused
<i>Bye-law 85 (b).</i> - Exemption from the Intermediate examination	7	9
<i>Bye-law 86 (a).</i> - Permission to sit the Final examination, after completion of articulated service, earlier than normally eligible	5	5

Registration of Articles

The Secretary reported the registration of 97 articles of clerkship during the last month, the total number since January 1st, 1961, being 1,138.

Admissions to Membership

The following were admitted to membership of the Institute:

Haydon, Derek Henry, A.C.A., 1961; 5 Wickham Crescent, West Wickham, Kent.
Scarr, William Lowther, A.C.A., 1961; Wharfedale Hall, Boston Spa, Yorks.

Fellowship

The Council acceded to applications from five associates to become fellows under clause 6 of the supplemental Royal Charter.

Members Commencing to Practise

*The Council received notice that the following members had commenced to practise:

Andrews, Neil Thomas, A.C.A., 1957; Willson & Co, Maney House, Birmingham Road, Sutton Coldfield; also at 36 Holifast Road, Sutton Coldfield, N. T. Andrews.
Baxter, John Michael, A.C.A., 1956; 101 Oldbury Road, Hartshill, Nuneaton.
Belt, John Stewart, A.C.A., 1961; 34 Firs Road, Edwalton, Notts.
Billingham, Graham John, A.C.A., 1961; Chick, Billingham & Co, 36 Hazelwood Road, Northampton.
Blackburn, Michael, A.C.A. 1960; Robinson & Co, Elm House, 4 Elm Hill, Norwich, NOR70K.
Boyd, Geoffrey Bourke Montgomery, A.C.A., 1953; Bullimore & Co, 71 The Close, Norwich, NOR16P.
Bradman, Godfrey Michael, A.C.A., 1961; Godfrey Bradman & Co, 23 Campbell Avenue, Barking, Essex.
Butterworth, Brian Lyndon, A.C.A., 1960; B. Lyndon Butterworth & Co, 2 Cherry Close, Dinas Powis, Glam.
Chilvers, Donald Richard, A.C.A., 1952; Cooper Brothers & Co and Coopers & Lybrand, Abacus House, 33 Gutter Lane, Cheapside, London, EC2, and at Tehran.
Cooper, Richard James, A.C.A., 1960; Dunn, Carey & Co and A. Chester & Co, 12 Buckingham Street, Strand, London, WC2, and at Dartford.
Critchley, Richard Frank Verduin, A.C.A., 1960; Peplow, Warren & Furler, 6 and 8 Sherborne Road, Newton Abbot.
Downs, Barry, A.C.A., 1957; B. Downs & Co, 5 Egerton Road, Davenport, Stockport.
Fry, John Morris, A.C.A., 1958; 121 Firs Drive, Cranford, Hounslow, Middlesex.

a indicates the year of admission to the Institute.

aS indicates the year of admission to The Society of Incorporated Accountants.

* Means 'incorporated accountant member'.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Gibson, John Branthwaite, A.C.A., 1958; R. Gibbons & Co, Netherall Chambers, 2 Curzon Street, Maryport, Cumberland, and at Workington.

Gilbey, Alan, A.C.A., 1961; 59 Cleveleys Road, London, E5.

Goate, David Anthony, A.C.A., 1960; Larking & Larking, Cornwallis House, Pudding Lane, Maidstone, Kent, and at Ashford, Canterbury, Norwich, Sittingbourne and Winslow.

Goode, Douglas Frank, F.C.A., 1929, *aS*1914; 1 Guessens Walk, Welwyn Garden City.

Gosling, Michael, A.C.A., 1958; T. C. Prince & Co, Westminster Bank Chambers, 2 Queen's Road, Watford; also at London, Barron & Barron.

Hatton, Terence Paige, A.C.A., 1959; *W. P. Hatton & Co, National Provincial Bank Chambers, Cross Street, Barnstaple.

Hayton, Robert, A.C.A., 1955; Walton, Watts & Co, Chancery Chambers, 55 Brown Street, Manchester, 2.

Helm, Stanley Vincent, A.C.A., *aS*1957; 142A Camberwell Grove, London, SE5.

Hoing, Roy Coote, A.C.A., 1958; Heal & Co, 84 The Broadway, Chesham, Bucks.

Holt, David Lythgoe, A.C.A., 1955; James Barlow & Son, 23 Acresfield, Bolton.

Howe, Gordon James, A.C.A., 1954; Broads, Paterson & Co and *Arthur Young & Co, Moor House, London Wall, London, EC2; for other towns see Broads, Paterson & Co and *Arthur Young & Company.

*Hunsworth, Fred Sheard, F.S.A.A., *aS*1930; 43 Sandfield Road, Thornton Heath, Surrey.

Jenkins, Brian Stuart, A.C.A., 1959; Haswell Brothers & Co, St John's Chambers, Love Street, Chester, and at Wrexham.

Jiggins, Gerald Arthur William, A.C.A., 1961; Langley House, 116 Long Acre, London, WC2.

King, Dennis, A.C.A., 1953; R. L. Marsden & Co, Elder Way, Chesterfield, Derbyshire, and at Alfreton.

Kinsley, John Terence, A.C.A., 1959; *Eacott, Standing & Co, 8 Sheet Street, Windsor.

Migdale, Philip Roger, A.C.A., 1960; 35 Abersham Road, Hackney, London, E8.

Mitchell, Harry David, A.C.A., 1956; Bank Chambers, Fish Dock Road, Grimsby.

Norris, John Robert, A.C.A., 1954; Gerald Edelman & Co, 25 Harley Street, London, W1.

Page, Martin Lewis, A.C.A., 1958; H. P. Gould & Son, 8 Upper King Street, Norwich.

Phillips, Desmond Tudor, T.D., F.C.A., 1948; 43 Aldenham Avenue, Radlett, Herts.

Proctor, George, A.C.A., 1958; 187 Harbottle Street, Byker, Newcastle upon Tyne, 6.

Ravenscroft, James Martin Edward, F.C.A., *aS*1938; Larking & Larking, Cornwallis House, Pudding Lane, Maidstone, Kent, and at Ashford, Canterbury, Norwich, Sittingbourne and Winslow.

Roberts, Michael Alan, A.C.A., 1954; R. Gibbons & Co, 37 Murray Road, Workington, Cumberland, and at Maryport.

Sampson, Arthur Thomas, F.C.A., *aS*1949; Robinson & Co, Elm House, 4 Elm Hill, Norwich, NOR70K.

Smith, Eric, A.C.A., *aS*1951; Leech, Evans & Co, Darlaston House, 45 Warwick Road, Coventry, and at London.

Spencer, Barry, A.C.A., 1952; 36 Rupert Street, Market Harborough, Leics.

Staggs, Cyril Richard, A.C.A., *aS*1956; *Pritchard & Co, 52 St Mary Street, Cardigan, and at Fishguard; also at Haverfordwest and Milford Haven, *Pritchard, Read & Co.

Sternschuss, Harold Haydn, A.C.A., 1955; H. H. Sternschuss & Co, 146 Woodfield Way, Bounds Green, London, N11.

Stewart, Robin Hinton, M.A., A.C.A., 1957; Blackburns, Robson, Coates & Co, Duchy Chambers, 4 Clarence Street, Manchester, 2, and at Bradford, Leeds and London.

Tree, Norman, A.C.A., 1961; Tree & Son, 28 Mortimer Street, London, W1, and at Southend-on-Sea.

Waller, Frank Arthur, A.C.A., 1953; W. Rowland Waller & Co, 18 Warrior Square, Southend-on-Sea, and at London and Sheerness-on-Sea.

Wheeler, Alan Morley, A.C.A., 1952; Newton & Co, Union Chambers, 63 Temple Row (P.O. Box 1), Birmingham, 2.

Wiseman, James Neville, A.C.A., 1961; N. Wiseman & Son, 19 Queen Street, Blackpool.

Readmission to Membership

Subject to payment of the amount required by the Council, one former member of the Institute was re-admitted to membership under clause 23 of the supplemental Royal Charter.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

- Mr Edwin Lewis Ball, A.C.A., Rotherham.
- „ Joseph Henry Birch, F.C.A., Scarborough.
- „ Charles Douglas Britten, M.B.E., F.C.A., Manchester.
- „ Roland Robert Callingham, F.C.A., Beaconsfield.
- „ John Fennah, F.C.A., Birmingham.
- „ John Barrett Geren, F.C.A., London.
- „ Thomas Wilkinson Hall, F.S.A.A., Alderley Edge.
- „ Leslie Saward Manvell, F.C.A., Minehead.
- „ John Russell Millican, F.C.A., Cheltenham.
- „ Alfred Frank Norman, F.C.A., Hastings.
- „ Herbert Porter, O.B.E., F.C.A., Folkestone.
- „ Robert Arthur Ruffer Reid, F.C.A., Johannesburg.
- „ Stanley Percival Rhodes, F.C.A., Castleford.
- „ John William Simpson, F.C.A., Karachi.
- „ Stanley Thornton, F.C.A., Preston.
- „ Dennis Wood, M.B.E., F.C.A., Gainsborough.
- „ William Henry Wormald, F.S.A.A., Northallerton.

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on June 7th, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Arthur Pannett, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that he signed the Accountants Certificate required by Section 1 of the Solicitors Act, 1941, relating to the practice of a solicitor for the

accounting period April 1st, 1958, to March 31st, 1959, which he knew or which he ought to have known was not correct, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Arthur Pannett, F.C.A., had been proved and the Committee ordered that Arthur Pannett, F.C.A., of Fountain House, 81-83 Fountain Street, Manchester, 2, be reprimanded.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Administrative Control and Executive Action; edited by B. C. Lemke and J. D. Edwards. Columbus, Ohio. 1961. (Presented by H. L. Layton, F.C.A.)

Van Boekhouden tot Bedrijfsleer een bundel opstellen . . . aan Prof. Dr J. G. Ch. Volmer; (edited) by M. J. H. Cobbenhagen, I. J. Goudriaan and N. J. Polak. Wassenaar. (c.1933). (Bonset, 23s 11d.)

Die Buchhaltungs-Systeme und buchhaltungsformen . . .; by F. Hugli. Bern. 1887. (Bonset, 31s 10d.)

Divina Proportione: opera a tutti gl'ingegni perspicaci e curiosi necessaria ove ciascun studioso di Philosophia, Prospectiva, Pictura, Sculptura, Architectura . . .; by Luca Pacioli. 1509. (Marlborough Rare Books, £1,000.)

De Eerste beginselen of de voornaamste Gronden en Regelen van het Italiaansch of Koopmans Boekhouden . . .; by L. Rapmund. (Rotterdam.) 1839. (Bonset, 10s.)

Financial Accounting in New Zealand; by T. K. Cowan. Wellington. 1960. (Sweet & Maxwell (N.Z.), 65s.)

Practical Points on Leases: a surveyor's experience; by W. A. Leach. 1961. (Sweet & Maxwell, 50s.)

The Problem of Rising Prices; by W. Fellner, M. Gilbert and others. Paris. 1961. (O.E.E.C., 21s.)

Programming Business Computers; by D. D. McCracken, H. Weiss and T. Lee. New York. 1959. (John Wiley, 82s.)

Programming for Digital Computers: putting computers to profitable use; by J. F. Davison. 1961. (Business Publications, 35s.)

The Purpose and practice of Motion Study; by Anne G. Shaw: second edition. Manchester. 1952. (Columbia Press, 50s.)

The Rent Acts, by R. E. Megarry: ninth edition by A. Bramall. 1961. (Stevens, 105s.)

Retire into the Sun: a survey of some possibilities in nine paradises; by C. Chisholm. 1961. (Phoenix House, 18s.)

The Services of a Solicitor: the Law Society's guide; by H. J. B. Cockshutt. 1961. (Hodder & Stoughton, 2s 6d.)

Het Vernieuwde licht des Koophandels; of grondig onderwijs in de Koopmans Rekenkunst . . .; by A. B. Strabbe: fourth edition by C. Wertz. Amsterdam. 1808. (Bonset, 31s 10d.)

Vernieuwd Licht des Koophandels, of Grondig Onderwijs in de Koopmans Rekenkunst; by A. B. Strabbe: second part; by H. G. Witlage. Amsterdam. 1846. (Bonset, 48s 10d.)

For Students

AUDITING

Verification of Balance Sheet Items

Question

The following items appear in the balance sheet of a limited company:

(1) Book value of plant destroyed by fire, £5,400.

(2) Motor vehicles on hire-purchase:

Instalments paid	..	..	£300
Less Depreciation	..	..	60
		—	£240

(3) Loans by directors and bank overdraft, £50,000.

You are required to:

(a) state how, as auditor, you would verify each of the items, and

(b) explain the amendments you would suggest if you consider any of the items incorrectly presented.

Answer

(a) (1) Book value of plant destroyed by fire £5,400

The auditor should obtain full particulars of the fire and ask for a complete list of items of plant destroyed to be produced to him. If a claim for compensation under an insurance policy has been made, he should inspect the policy and examine the correspondence with the insurance company, together with the report of the assessor acting on behalf of the company.

Confirmation of the book value of the plant destroyed should be obtained by reference to the plant register or from the accounts in the ledger for plant and provision for depreciation thereon (from which the cost of the plant, any capital expenditure incurred since its acquisition, and the total amount of the provision made for depreciation would be ascertained). If the scrap materials resulting from the destruction of the plant have been sold, the proceeds should be verified, and it should be seen that they have been credited against the book value of the plant before arriving at the ultimate amount of the loss (if any) suffered. If the scrap has not been sold an estimate of its value should be obtained from the works manager. Consideration should be given to the possibility that the property is not fully insured and that some part of the loss may fall on the company.

(2) Motor vehicles on hire-purchase

The invoice and hire-purchase agreement should be examined, noting the cash price of the vehicles, the rate of interest chargeable, the amount of the deposit paid and the number and amount of the instalments. Payment of the deposit and instalments should be vouched with receipts. As corroborating evidence of the existence of the vehicles, the registration books and insurance policies should be examined.

(3) Loans by directors and bank overdraft

The receipt of the loans should be verified with the cash-book and the agreements (if any) with regard thereto examined, noting the rate of interest payable, the terms of repayment and the security (if any) given by the company. Any repayments made and payments of interest should be verified, and certificates obtained from the lenders as to the amounts outstanding at the close of the accounting period.

The amount of the bank overdraft should be verified by reconciling the balance shown in the company's cash-book with the bank statement, and obtaining from the bank a certificate of the amount outstanding and of any security held by the bank. Interest charged by the bank should be vouched.

It should be seen, by reference to the memorandum and articles of the company, that the borrowing powers have not been exceeded. The minutes of the directors authorizing the loans and overdraft should be seen.

(b) The following amendments are suggested:

(1) Since the plant no longer exists it should not be included as an asset in the balance sheet. If the amount of the claim against the insurance company has been agreed, it should be credited to the plant account and debited to an insurance claim account, which should appear as a current asset in the balance sheet. The balance of the plant account (if a loss) should be written off to profit and loss account, and (if material) shown separately therein as an exceptional loss. If the amount of the claim has not yet been agreed, an estimate of the amount recoverable should be shown in the balance sheet as a current asset, and provision made in the profit and loss account for any prospective loss. If the amount recoverable exceeds the book value of the asset the amount of the excess, if material, should be credited to a capital reserve.

(2) In respect of the motor vehicles on hire-purchase, the amount of interest included in the instalments paid should be transferred to a hire-purchase interest account and written off to profit and loss account, only the amount paid on account of the cash price of the vehicles being shown in the balance sheet as an asset.

The charge for depreciation is incorrectly calculated on the amount of the instalments paid. It should be computed on the total cash price of the vehicles. The necessary amendment should be made in the accounts.

To the extent that provision has not been made in the accounts for the balance of the cash price of the vehicles, a note thereof should be made in the balance sheet.

(3) To comply with the requirements of the Eighth Schedule to the Companies Act, 1948, the bank overdraft must be shown as a separate item in the balance sheet. The loans by directors should not be classified as current liabilities unless they are repayable within one year of the date of the balance sheet. In respect of both the bank overdraft and the loans, the fact that they are secured, if such is the case, should be stated in the balance sheet, although it is not necessary to specify the assets on which the liabilities are secured.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS DAVIS, KELLIE & Co, Chartered Accountants, of 4 Queen Victoria Street, London, EC4, and at Fleet, Hants, announce that as from July 1st, 1961, Major H. E. DAVIS, F.C.A., retired from the firm, but will remain advising and assisting. The firm will be carried on by the remaining partner, Mr HAROLD F. DAVIS, F.C.A., under the same style and at the same addresses.

MESSRS DEARDEN, HARPER, MILLER & Co, Chartered Accountants, of 17-18 St Dunstan's Hill, London, EC3, and 14 Lloyd Street, Manchester, announce that as from July 1st, 1961, they have amalgamated their practice with that of Messrs G. DIXEY & Co, of 17-18 St Dunstan's Hill, London, EC3. On the same date Mr R. BRANDT, M.A., A.C.A., was admitted as a partner in Messrs DEARDEN, HARPER, MILLER & Co.

MESSRS JOHN GORDON, HARRISON, TAYLOR & Co, Chartered Accountants, of 7 Bond Place, Leeds, 1, announce that Mr MAURICE MYERS, F.C.A., has, after forty-five years' association with the firm, retired on June 30th, 1961. The practice will be carried on by the remaining partners under the same name.

MESSRS HOWDEN & MOLLESON, Chartered Accountants, of 8 York Place, Edinburgh, 1, announce that as from July 1st, 1961, they have assumed Mr IAN M. SHAW, C.A., and Mr W. N. HERBERTSON, C.A., as partners in the firm.

MESSRS PETER WINDLE & Co, Chartered Accountants, of 117 Hagley Road, Edgbaston, Birmingham, 16, announce that they have taken into partnership Mr J. D. COULTER, A.C.A., who has been associated with the practice for some time past. The style of the firm remains unchanged.

MESSRS GEO. MACKENZIE & Co, Chartered Accountants (S.A.), of Northern Trust Building, 28 Harrison Street, Johannesburg, announce that they have taken into partnership in their Johannesburg office Mr ALWIN TUCKER HOERNLE, C.A.(S.A.). The name of the firm will remain unchanged.

MESSRS GEO. MACKENZIE & Co, Chartered Accountants (S.R.), of Sixth Floor, Bryanston House, Gordon Avenue, Salisbury, Southern Rhodesia, announce that as from July 1st, 1961, they have admitted to partnership Mr WILLIAM A. D. CRAIG, F.C.A., C.A.(S.R.), Mr DONALD F. J. LATHAM, A.C.A., C.A.(S.R.), and Mr SIDNEY F. PLEW, C.A.(S.R.). Mr CRAIG is located at Bulawayo office, Mr LATHAM at Sinoia, and Mr PLEW at Gwelo. The style of the firm remains unchanged.

Appointments

Mr E. S. de Banzie, B.A., A.C.A., has been appointed a director of Berry Wiggins & Co Ltd.

Mr R. Van Baars, F.C.A., has been appointed a director of William Griffiths & Co Ltd.

Mr A. L. F. Fuller, F.C.A., secretary and chief accountant of Robert Marriott Ltd, has been appointed a director of the company.

Mr Richard J. Mason, F.C.A., manager of the Trustees Corporation Ltd has been appointed a director of the Corporation.

Mr E. P. Smith, M.B.E., T.D., F.C.A., has been appointed deputy managing director of Wrights' Ropes Ltd.

Mr C. D. Wilson, M.C., F.C.A., has been appointed managing director of Southern Television Ltd.

Mr B. T. Barker, F.C.A., has been appointed a director of the Darjeeling Consolidated Tea Co Ltd.

OBITUARY

John Harold Phillips, F.C.A.

We have learned with regret of the sudden death on July 4th of Mr John Harold Phillips, F.C.A., a partner in the firm of Turquand, Youngs & Co, of London.

Admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1927, Mr Phillips joined Turquand, Youngs & Co, Far Eastern firm (at that time it was McAuliffe, Davis & Hope) in Singapore in the same year. He settled down in the East and in due course was admitted a partner.

He remained in Singapore when Japan came into the war, and when Malaya was overrun he was interned in Changi Camp, where, with so many others, he suffered great hardships and privations. When the war ended he returned to Singapore after a brief recuperation in England. He became a senior partner in the Far East in 1946.

In addition to being well known professionally in Singapore, Malaya, Borneo and the Dutch East Indies, he held many directorships. Apart from his business connections he was well known for his golfing prowess and the efforts he made to further interest in the game in the East. He assisted in organizing and planning the golf course in Djakarta, and his name appears many times on the honours board in the club house there.

In 1957 Mr Phillips retired from the East and joined the London partnership, but he still continued to take an active interest in Far Eastern affairs; he was on the committee in London of the British Association of Malaya.

JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SW1

Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

IN PARLIAMENT

Companies Act, 1948: Section 54

Mr MARSH asked the President of the Board of Trade, in view of the statement by Mr Neville Faulks, Q.C., in his official report that Section 54 of the Companies Act, 1948, is regularly ignored, what action he intends to take to ensure its observance.

Mr N. MACPHERSON: My right hon. friend is always prepared to consider the question of proceedings if evidence is available which would seem to justify a prosecution. He feels, however, that the questions posed by this section, including the adequacy of the penalty, need to be examined afresh. The Jenkins Committee which is reviewing company law has received evidence on this subject and will no doubt deal with the matter in its report.

Hansard, June 27th, 1961. Written Answers, col. 16.

SHEFFIELD AND DISTRICT SOCIETY OF
CHARTERED ACCOUNTANTS

New President

Mr A. G. Thomas, F.C.A., a partner in the firms of Camm Metcalfe, Best & Co, Chartered Accountants, and Kenneth West & Co, Chartered Accountants, of Sheffield, was elected President of the Sheffield and District Society of Chartered Accountants at the Society's annual meeting on June 26th.



Born in 1912, Mr Thomas was educated at King Edward VII School, Sheffield, and served his articles with Camm Metcalfe & Co, of which firm his father, Mr J. B. Thomas, F.C.A., was the

senior partner. He was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1934 and after serving for a year at the London office of Peat, Marwick, Mitchell & Co, became a partner in Camm Metcalfe & Co (now Camm Metcalfe, Best & Co).

Mr Thomas was a member of the Committee of the District Society from 1946-48 and has again been a member since 1960. He has served on the regional Taxation and Research Committee since 1947 and has represented the Society on the Institute's Taxation and Research Committee since 1949.

Other officers of the Society for 1961-62 are:

Vice-President: Mr C. E. Copley, B.Sc., F.C.A.

Hon. Secretary: Mr M. Sheppard, F.C.A., Broomspring House, 85 Wilkinson Street, Sheffield, 10.

Hon. Treasurer: Mr R. L. Emmitt, A.C.A.

Hon. Auditor: Mr A. G. Bedingfield, F.C.A.

The Society's report for 1960 records an increase in membership during the year of twenty-three bringing the total at December 31st to 486.

The general programme for 1960-61 consisted of a number of lecture meetings and visits were made to the works and offices of Davy-United and the English Steel Corporation.

At a careers convention organized by Sheffield Junior Chamber of Commerce in October a stand was organized on behalf of the Society. Members of the Committee also attended two further conventions held at Worksop and Ecclesfield.

INCORPORATED ACCOUNTANTS'
BENEVOLENT FUND

The sixty-eighth annual meeting of subscribers of the Incorporated Accountants' Benevolent Fund was held at 36 New Broad Street on June 26th. In the unavoidable absence of the President of the Fund, Sir Frederick Alban, C.B.E., the chair was occupied by Mr Edward Baldry, O.B.E.

He announced that unfortunately the merger of the Fund with that of the Chartered Accountants' Benevolent Association had not yet been effected owing to further legal difficulties which had occurred after the proposals for the merger were unanimously approved by the members of the Chartered Accountants' Benevolent Association at its general meeting on May 4th, 1960. The matter was, however, now before the Court and it was hoped that the formalities would be concluded in the very near future.

Mr Baldry expressed the thanks of the trustees for the assistance given to the Fund by the Honorary Secretary, Mrs Duncalf, and by the Institute's Accountant and the members of his staff.

The report and accounts for 1960 were adopted.

Sir Frederick Alban was re-elected President of the Fund, and the Vice-Presidents and the Trustees were re-elected.

Mr James A. Allen was re-elected Honorary Auditor, with a vote of thanks for his services over many years.

A vote of thanks was also given to Mr Baldry as chairman.

LONG SERVICE

Mrs A. Lamb, office manager of Gee & Co (Publishers) Limited, publishers of *The Accountant*, has retired after thirty-seven and a half years' service with the company. Mrs Lamb joined the staff of the company as an assistant in the accounts department in 1923. During the last war she was evacuated with other members of the staff to the country where, she says, it was often necessary to work far into the night in order to maintain publication - for, though the printing works was demolished in the blitz, *The Accountant* never missed an issue. Mrs Lamb has a fund of reminiscences - many humorous, some vexatious - of her long experience. We wish her, as no doubt will the many readers to whom she is known, a long and happy retirement.

MOTOR — FIRE — CONSEQUENTIAL LOSS

CAR & GENERAL INSURANCE L^{TD}
CORPORATION

83 PALL MALL, LONDON, SW1

**THE LEEDS, BRADFORD AND DISTRICT
SOCIETY OF CHARTERED ACCOUNTANTS****Management Accounting Course**

The Leeds, Bradford and District Society of Chartered Accountants are holding their fourth residential course on management accounting at *The Old Swan Hotel*, Harrogate, from the evening of Friday, December 1st, to luncheon on Sunday, December 3rd.

Papers will be presented by Mr W. S. Risk, B.COM., C.A., F.C.W.A., Immediate Past President of The Institute of Cost and Works Accountants, Mr John A. Goldsmith, M.A., F.C.A., and Mr John W. Harling, M.A.

A number of places will be reserved for representatives of other district societies. The course secretary, from whom further information may be obtained, is Mr H. Anderson, F.C.A., 26 Park Row, Leeds, 1.

**INTERNATIONAL BANKING SUMMER
SCHOOL**

The fourteenth International Banking Summer School assembles in London next Sunday – the first time it has ever been to the City – and will be received by the Lord Mayor at the Mansion House on the following day. Bankers from fifty-one countries will be present at the school which provides, in addition to a comprehensive programme of lectures, opportunities for informal exchanges of ideas and the making of personal friendships. There will be bankers from countries ranging, alphabetically, from Argentina to Yugoslavia and, geographically, from Iceland to Australia.

The school moves to Oxford on Tuesday of next week and will continue, until July 29th, at Christ Church. This is its traditional home, for the school, which was originated by the Institute of Bankers, was first held there in 1948. The last occasion on which the school took place in England was in 1955.

**CHARTERED ACCOUNTANTS' HOCKEY
CLUB**

The Chartered Accountants' Hockey Club, of which Sir William Carrington, F.C.A., is President, hopes to be represented in sufficient strength at the Eighth International Congress of Accountants to be held in New York in September 1962, to make it possible for the hosts to organize a Field Hockey Tournament to be run in conjunction with the Congress.

Members of the Club have already been circulated, but we are asked by the secretary, Mr Stanley N. Elgar, F.C.A., to say that he would be glad to hear from hockey players, including those of the Scottish and Irish Institutes, who are proposing to be in New York for the Congress and who would like to be considered for selection in these representative matches. The secretary's address is 22 Queen Anne Street, London, W1.

GOLF**Chartered Accountants' Golfing Society**

The Chartered Accountants' Golfing Society played its annual match against the Chartered Treasurers on June 28th at Berkshire Golf Club. The course was in excellent condition and the attractive fairways, lined with heather and trees, were looking their very best in the perfect summer weather.

The teams consisted of four pairs, and eight four-some matches were played. The result was a win for the Chartered Accountants by five matches to three.

The individual results (Chartered Accountants' names first) were:

MORNING

W. B. Henderson and R. G. B. Drummond lost to W. F. White and G. C. Jones, 6 and 5.
H. W. Claxton and D. W. Gibson lost to A. W. Mowbray and A. B. Ridley, 1 down.
E. Head and C. I. Steen beat D. G. Webber and D. H. Crisp, 4 and 2.
A. Coleman and S. W. Penwill beat B. Quick and T. Shaw, 2 up.

AFTERNOON

Henderson and Claxton beat White and Ridley, 1 up.
Drummond and Gibson lost to Jones and Mowbray, 7 and 5.
Head and Coleman beat Webber and Shaw, 3 and 1.
Penwill and Steen beat Crisp and Quick, 7 and 5.

Manchester v. Liverpool Societies

A golf match between the Manchester Society of Chartered Accountants and the Liverpool Society of Chartered Accountants at Formby Golf Club, Lancashire, on July 4th, resulted in a win for the Liverpool Society by four matches to one.

The results were as follows:

<i>Manchester Society of Chartered Accountants</i>		<i>Liverpool Society of Chartered Accountants</i>	
A. Eglin,		J. L. Hughes,	
J. D. Hilton	o	W. S. Wicks	1 (7 & 6)
K. W. Horton,		B. Gilpin,	
G. W. Taylor	o	D. Stuttard	1 (4 & 3)
G. A. Bell,		F. D. M. Lowry,	
J. G. Worrall	o	V. A. Sola	1 (6 & 4)
H. Lomax,		W. R. Fairclough,	
P. H. Owen	o	J. M. Harvey	1 (8 & 7)
L. Royle,		C. C. Taylor,	
F. R. Terras	1 (4 & 3)	R. Watson	o
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In a match between the Manchester Society of Chartered Accountants and the Manchester Lawyers' Golfing Society at the Wilmslow Golf Club, Cheshire, on June 22nd, the Manchester Society of Chartered Accountants won by six and a half matches to one and a half.

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THAT the maintenance of accepted standards of technical competence and of conduct are the primary functions of every recognized association of professional men is nowadays accepted without question. Yet, in a world in which the frontiers of knowledge are being steadily pushed outwards, the minimum standards of technical competence cannot remain constant. Continuous progress demands increasing specialization. While such developments are most marked and apparent in the scientific field, they are not absent from the professions. The importance of specialization in various branches of accounting techniques and related fields such as taxation and bankruptcy has long been recognized. The average practising accountant, however, stands poised (or should it be balanced?) between the various specialists such as the tax consultant, the practitioner in bankruptcy and liquidations, the management accountant working on organization methods and the costing expert in his chosen field and, in the course of dealing with his clients' affairs, may well have to fulfil all these various roles.

If, just for a brief moment, the average accountant can reflect on the growth of tax law, of the changes in commercial law, of new management techniques, that have taken place since the war, the sum total forms a terrifying picture. Much of it has been assimilated - possibly as routine - over years of practice; yet how often has the occasion presented itself to assess its implications and its importance for the accountant's work. There is little doubt of the growing awareness in the accountancy profession of this particular need. At Oxford last week-end The Institute of Chartered Accountants in England and Wales held its fourteenth Summer Course; later this year another such course will take place at Cambridge. What was initially a post-war experiment to meet an apparently temporary and transient need, has now become an integral part of the Institute's policy whereby professional standards are not merely maintained, but intellectual activity, which in the long run is essential to a growing profession, is stimulated. For the hard-pressed practitioner it is sometimes tempting to minimize the value of such periodic meetings and even belittle them as nothing more than an opportunity for relaxation and a little golf! The growing demand for places at these courses and the evidence of the papers themselves refute such assertions. The papers are not devoted to esoteric topics which seldom come within the scope of the average practitioner's work; they constitute the means whereby in brief compass the member can learn what is being done - and what will affect his clients - from those members whose work

enables them to acquire this specialist knowledge which the average practitioner seldom has the opportunity to obtain.

In the light of recent complaints by the small practitioner, the opening paper at Oxford, 'Services to the private company and its members', is of especial interest. Its author, MR A. B. SNOW, F.C.A., deals with matters affecting clients, incorporated as small private companies, whose turnover is often expanding and therefore experiencing credit stringency, often at a time when a substantial tax liability has to be met.

'The service which the small private company most urgently needs from the practising accountant', avers MR SNOW, 'is expert advice and assistance in advising the board as to how to use the company's capital to the best advantage, how much the current year's turnover is expected to be, how much profit will accrue from the turnover, how much finance will be required from the bank, over what period and at what time surplus funds will require investment.'

To this particular end MR SNOW advocates the use of 'forward accounting' whereby the board – even if not particularly well versed in financial matters – can be kept informed as to what is happening month by month and whether the company is achieving its targets in production, sales and costs. Such a system should neither involve the company in exorbitant expense in respect of additional staff, nor should it impose an additional inconvenient burden on the existing staff. MR SNOW illustrates and develops his argument by a set of analysed accounts which, in their essentials, constitute a set of monthly budgets. With these figures, the author asserts that members of the board can be shown exactly why their overdraft has gone up, why they cannot draw their full salaries, what the consequences are of over-trading, of extended credits to customers and so on. He stresses that he avoids the use of the grandiose term 'management accounting', but clearly what is useful in a large business can often be adapted to advantage for the small firm. This paper echoes the concluding remarks of the Institute's Immediate Past-President, MR S. JOHN PEARS, who in his May address stressed that 'if it [the accountancy profession] is to play its full and proper part in the economic life of the community, it must become more dynamic and interested in the commercial aspects of its clients' business'. And, let it be noted, the first

step in this direction must lie with the profession. It is for the accountant to demonstrate to the client the services he has to offer.

The same need for cultivating 'accountant-client' relations is evident in dealing with the client's tax affairs. Is it enough, asks MR SNOW, merely to inform the client that 'the enclosed demand note is correct and may be paid'. On the topic of taxation, MR SNOW's remarks will evoke many a fervent response from practitioners. Discussing the difficulties of completing Form P.11 D, he comments that the client knows

'from long experience that the best and most reliable taxation advice, the kind that has his own interests closely at heart, is to be obtained quite free of charge from those knowledgeable business people he meets casually on the golf course or in the cocktail bar – those supremely fortunate beings who drive about in magnificent cars at an income tax valuation of only £10 each and who never in the remotest circumstances suffer the slightest disallowance of their entertainment and travelling expenses'.

MR SNOW's solution to this problem is unfortunately no better than that currently available to other practitioners, i.e. to encourage clients to inform themselves from business journals about broad taxation principles so that ultimately they may see the purpose of the accountant's advice and to appreciate that 'he is working for them and not against them'.

The tax complexities of the successful private company are legion and the dangers of prospective surtax directions must be continuously borne in mind. In the second paper to the course, 'Surtax and companies', MR JAMES S. HEATON, F.C.A., argues that 'the view is increasingly held that annual applications should be made for clearance'. The mere fact that nothing may have been heard from the Special Commissioners for several years often lulls the members of the board into a false sense of security. MR HEATON suggests that regular applications for clearance certificates not merely avoids the unhappy situation that arises when an unexpected and invariably inconvenient demand for several years' tax comes in to the company. Such clearances not merely relieve the mind, but if the sale of the company or its amalgamation is contemplated, or possibly its floatation as a public company, then these matters will be greatly simplified and expedited by regular clearances in past years. This paper also touches on many points of practice such as directors'

loans and their repayment, loans to members, the distribution of capital profits and the purchase of assets from members. In short, the practitioner will find in this paper a happy blend of taxation law and practical advice.

Amalgamations, mergers, holding companies and take-overs are hardly new features on the commercial scene, but no one could deny that the subject has topical interest. The growth in the development of groups through take-overs and mergers can be explained on the purchaser's side by the opportunities for growth and expansion that offer themselves when a business is efficiently controlled and has access to substantial outside resources. From the vendor's point of view, the current rates of income taxation and the prospect of crippling estate duty together combine to form a strong inducement to accept an offer to purchase the business. Thus the practising accountant may well find that his client's business may attract a bidder, just as he may be instructed by an ageing client with an eye to his family's future, to seek out a prospective buyer. Herein lies the

practical interest of the third paper presented by by MR R. O. A. KEEL, F.C.A., on 'The problems of a group upon the acquisition of companies'. As secretary to the Tilling group, the author is well placed to explain to his fellow accountants the type of information they would be expected to produce for a potential bidder, as well as an analysis of such a group's policy in acquiring businesses and their method of control. MR KEEL is concerned that some of the adverse publicity attracted by recent take-over bids should not ultimately affect the legal rights of companies to grow through the medium of acquiring others. As he rightly points out, acquisition is usually followed by a more efficient exploitation of the resources of the company, which redounds not only to the benefit of the purchaser, but also to that of the acquired business and its staff.

This brief commentary on the thought-provoking papers presented at the Institute's Oxford Course cannot do justice to their quality. This must await their publication in full in future issues.

Truck Acts Reform

THE committee under the chairmanship of MR DAVID KARMEL, Q.C., which was appointed in 1959 to consider in the light of present-day conditions the operation of the Truck Acts, 1831 to 1940, and related legislation and to make recommendations, has now made its report to THE MINISTER OF LABOUR,¹ as briefly noted in our last issue. The committee received submissions in writing from a large number of organizations of varied interests and from individuals, and it also heard oral evidence from representatives of the British Employers' Confederation, the Ministry of Labour and the National Coal Board.

Nowadays the Acts have lost much of their value and even prevent employers and workers from making arrangements which seem to them mutually convenient and which are clearly unobjectionable in principle. The Payment of Wages Act, 1960, made an incursion into the restrictions imposed by the Truck Acts by legalizing the payment of wages by methods which contravened

the Acts, but this was a limited reform and clearly it is desirable to go much further in removing archaic restrictions.

But while the British Employers' Confederation, for example, stressed the desirability of abolishing the Acts entirely, the cry for abolition was by no means unanimous and the committee has come to the conclusion that the time when all the protection given by the Acts can safely be withdrawn has not yet arrived. It found that even since the end of the Second World War over a hundred complaints had been dealt with by Inspectors of the Ministry of Labour, and the number of breaches of the Acts may well be considerably more. The committee has, however, recommended that the present Acts be repealed in their entirety, and replaced by a new Act to deal with twentieth-century conditions in twentieth-century terms.

The existing Acts provide three basic forms of protection: against payment of workers in kind; against interference with the worker's freedom to dispose of his wages as he thinks fit; and against

¹ Report of the Committee on the Truck Acts, H.M.S.O., 1s 9d.

unreasonable or unfair deductions from wages. Protection against restrictions on the worker's freedom to dispose of his wages as he will is supplementary to and, in a sense, part of the protection against payment in kind. Complaints under either of these two heads are extremely rare. On the other hand there is a growing tendency in favour of additional benefits and allowances otherwise than in cash, and the committee think it wrong that this practice should be unlawful, being satisfied that there is no actual or prospective abuse. In the circumstances it recommends that, in place of the definition of 'wages' in Section 25 of the Truck Act, 1831, which is so wide as to include almost anything which a worker receives by way of reward for his services, there should be a provision that 'wages' are to be the cash wages agreed to be paid to workers under their contracts of service and that such wages must be paid in cash (including payment in the forms permitted by the Payment of Wages Act, 1960). There would then be no objection to workers receiving payments in kind additional to their wages.

Nearly all the complaints in the period 1947-58 related to deductions from wages, and it is in this sphere that the committee thinks that there is still a need for protective legislation, though, generally speaking, deductions to which the worker has consented are not objectionable at all. It therefore recommends legislation which should, so far as deductions are concerned, have the effect of making lawful any to which the worker consents, except where there is a prohibition in some other Act. If a question should arise as to whether a particular deduction is provided for in a contract of employment or whether the worker has otherwise agreed to it, he should be entitled to refer it for decision to a local tribunal which would receive applications through the local office of the Ministry of Labour. On points of law, however, there should, in the committee's view, be a right of appeal to the Court of Appeal, or, in Scotland, the Court of Session. The setting up of a new series of local tribunals may be regarded critically in some quarters and there is, indeed, a wide feeling against tribunals which exercise judicial functions. In the present case, however, it is so obviously necessary that any dispute should be settled quickly and cheaply that a good case can be made out for some simple local

machinery for settlement. It should be possible to find persons to serve on such tribunals whose experience and impartiality would make their decisions generally acceptable to the parties.

The committee contemplated the making of fines illegal, but decided not to so recommend, because workers sometimes prefer to be fined than dealt with in other ways. So, however, that the power to fine shall not be abused, the committee concludes that fines should be allowed only where there is an accepted practice, or the agreement of the majority of the workers concerned to the principle of fining has been obtained, observing that this, no doubt, would normally be done through the appropriate trade union. Redress in the event of a fine being excessive could be sought through the local tribunal. As regards bad work or damage to the employer's property, the suggestion is that deductions should be treated in the same way as disciplinary fines.

Deductions for overpayments should not, in the committee's view, be made without the worker's agreement, both as to the fact of overpayment and as to the amount involved, but here the employer would have the right to go to the tribunal, if the worker's assent were refused. On the other hand the worker's assent would not be required to a deduction made for cash shortages (where the worker has been entrusted with the handling of cash and has a duty to account), though the worker would have a right of appeal to the tribunal on various grounds.

The committee recommends that the penal sanction behind the Trucks Acts should not be retained, thinking it enough that the worker should have recourse to the tribunal, whose awards would be enforceable by action in the Courts. Certainly this would appear to give the worker all the protection necessary. While the restrictions imposed by the proposed legislation would be less than those existing at present, the committee thinks that it should extend to a wider section of the working community, namely, to all employed under a contract of service other than merchant seamen (whose case is exceptional and requires special consideration). This is a reform which, it is thought, would be generally welcomed, if only because of the doubts which arise as to who is within the scope of the existing Truck Acts. It is suggested by the committee that the proposed legislation should bind the Crown.

A Gentle Historian

THE Society of Incorporated Accountants, to give it the title by which it was finally known, was founded in 1885 and continued in being until 1957 when it went into voluntary liquidation, its members being received into the three chartered institutes of England and Wales, Scotland and Ireland. During this span of seventy-two years – which covered about three-quarters of the organized existence of the accounting profession in this country – the Society grew in numerical strength from the original 350 (as recorded in the first year-book) to around 11,500 and its influence in all matters relating to the practice and politics of accountancy was considerable. It is fitting, therefore, that its story should be put on record and it is also appropriate that its historian should be MR A. A. GARRETT.¹ Learned institutions depend greatly on the good qualities of their secretaries and the Society was fortunate in that SIR JAMES MARTIN occupied that post during its formative years from 1886 to 1919 and that MR GARRETT was available to succeed him during the years of consolidation from 1919 to 1949. Both were men of outstanding calibre.

It is constantly a matter for debate whether the best historians are those remote in time and place from their subjects or those who lived in the middle of the events they describe and perhaps themselves helped to shape. Is SIR WINSTON CHURCHILL at his best writing about his ancestor, MARLBOROUGH, or about the First and Second World Wars or, in both instances, does he lack the detachment which makes GIBBON, when in control of his prejudices, so admirable a historian? MR GARRETT certainly took part in many of the events of his chronicle and openly admits, in his introduction, that his account of them may be 'biased by affection'. He does, however, make a praiseworthy attempt to relate the happenings of the Society to the background of the times.

It is an unhappy fact that the Society was formed in an atmosphere of antagonism and that its arrival on the scene was not welcomed by its

elder brother by five years, The Institute of Chartered Accountants in England and Wales. The new body, however, had the blessing of the Board of Trade and, after some early internal dissension, the backing and expert guidance of a band of loyal members who believed that the accounting profession had an assured future. The Society apparently thrived on adversity and by setting impeccably high examination standards and defining a stringent code of conduct for its admitted members, in time earned the respect of its sternest critics. Relations between the Society and the other established professional bodies became amicable and as in the market place competition makes for efficiency, so the presence of the up-and-coming Society may well have helped to keep the armour of the others bright. MR GARRETT records even the most contentious incidents of those early days with an urbanity and fairness which places him among BURKE's gentle historians who dip their pens in nothing but the milk of human kindness.

When he comes to the latter part of the Society's history, when it was in the full plenitude of its powers, MR GARRETT continues to follow 'the great law of impartiality' (incidentally with greater success than GIBBON) and his detailed account of the last years should make comforting reading to those who still mourn its passing. The whole is always greater than the part and already it has been demonstrated that none of the best qualities of the Society has been lost to the profession by the scheme of integration.

MR GARRETT, in his summing-up, takes the sensible view that change in human affairs is inevitable and that in the seventy-two years of its life the Society's work had been fulfilled. As he sees it, the standards of the Society and the three chartered institutes had attained approximate parity and 'their ways of doing things were not very different'. Furthermore, the pressure of outside circumstances made it essential that the structure of the profession should be simplified and, by a happy chance, the opportunity to do so came and was accepted. The rest is recent history and MR GARRETT records it with the same painstaking understanding which characterizes the earlier part of his narrative.

¹ *History of the Society of Incorporated Accountants, 1885-1957*, by A. A. GARRETT, M.A. (Printed by Oxford University Press. 24s post free. Orders, with remittances, to C. A. EVAN JONES, ESQ., c/o Lloyds Bank, 55 Moorgate, London, EC2.)

Taxpayers and the Revenue

by A. W. NELSON, A.A.C.C.A., A.T.I.I.

A contributor to *Simon's Income Tax*

MODERN budgets involve financial legislation of ever-increasing complexity, and successive Governments have found it necessary to introduce measures designed to check practices by which taxpayers have sought to reduce the burden of taxation laid upon them. That there have been many cases of abuse of the existing law – cases which have involved large sums of money – cannot be denied; but it sometimes seems possible to detect a conspicuous failure on the part of officials to remember that in many instances these practices have not involved any breach of the law, they have merely taken advantage of its shortcomings and have demonstrated those shortcomings in a manner most painful to the Exchequer. One may not approve of these practices; but neither can one approve of an official attitude which seems to imply that such practices are really of a quasi-criminal character, the criminals having been clever enough to escape their just deserts.

Petty Harassment

Unfortunately, when this climate of opinion prevails and is indeed fostered, the official mind all too readily tends to regard all taxpayers as potentially dishonest members of society, and the perfunctory lip-service which is sometimes paid to the vast majority of honest taxpayers does little or nothing to dispel this attitude of mind. The danger then exists that petty harassment of taxpayers may come to be considered meritorious devotion to duty, and the infliction of minor injustice no more than fair retribution for some vague and indefinable sin.

It has been a matter of some pride in the past that the relations existing between the public (including the accountancy profession) and the Inland Revenue have been so harmonious, and it would be a pity if this relationship sustained serious damage. There are nevertheless distinct signs that this harmony is becoming somewhat strained at times and it is suggested that this is due to a number of failings which cannot even in part be attributed to the taxpaying public. It may not, perhaps, be fair to attribute all the blame for these matters to the Inland Revenue, for this department must administer the law as it stands

and its officers must carry out official policy. Thus the Legislature and the Government itself cannot escape a measure of responsibility for those examples of 'the insolence of office' which have seemed to be increasing in recent years.

Causes of Friction

Such friction may be traced to three main causes:

- (i) Lapses from those standards of courtesy and patience which the public has a right to expect from those who serve it – standards which the Board of Inland Revenue as a matter of policy requires to be observed.
- (ii) An increasing tendency to narrow and illiberal interpretations of the law.
- (iii) Failure to deal expeditiously with obvious legislative deficiencies detrimental to the taxpayer.

Dealing with the first of these three factors it is necessary to generalize to a considerable extent, since it is obviously not possible to cite specific cases in an article of this nature. It is, however, fair to say that this factor probably stems directly from the somewhat hostile attitude of mind to which reference has already been made. This usually manifests itself in inquiries designed to satisfy Revenue officials that full returns of income have been made.

At this stage, it must be said immediately that where reasonable grounds for suspicion exist, inspectors of taxes are fully entitled to make inquiries necessary to dispel or confirm those suspicions, provided that they proceed within the law. What is questionable is whether there are in every such case reasonable grounds for suspicion. Every practising accountant will have experienced inquiries of this nature, where a full examination of the file discloses quite clearly that no such grounds exist; and one is entitled to ask why care is not taken to ensure that inquiries are only made where there is good reason to assume that full disclosure has not been made. It seems clear that such care is not always exercised, and this obviously stems from the view that the onus of disproving an assessment lies upon the taxpayer; it being but a short step from here to insisting that taxpayers should disprove

the suggestion that they may be dishonest. Most accountants will know how to deal with this situation, but there are many taxpayers who do not employ accountants. How are these taxpayers to deal with this? No doubt many do succeed in satisfying officials as to their honesty, but others equally honest may have no idea how to set about the problem.

Almost every practising accountant will have experienced the case of the taxpayer who, having made some trivial error in his tax return for one year, finds himself involved in an investigation going back over numerous past years. After lengthy negotiation an accountant is often able to demonstrate that there was no reason to doubt his new client's honesty and the error is shown to be a genuine mistake affecting one return only. A frequent source of this type of error is bank interest where in the first year some taxpayers include only the interest credited in December, overlooking the interest for the previous June. It may be said that this was wrong in the first place and there is little room for complaint, but this is surely a superficial judgment. Even taxpayers must be expected to make some mistakes and they should expect to be given the benefit of the doubt where reasonable doubt exists. Often this sensible approach is in fact adopted; but there are cases where fruitless inquiries are pursued to the bitter end, and it is suggested that these should not arise.

Cash Hoards

Cash hoards also give rise to considerable difficulty. It must be admitted that there is no need to hoard cash. It should be obvious that a bank or savings account is a far better and safer repository for savings than such a foolish and short-sighted method as, say, a tin box or a hole in the floorboards. Inland Revenue policy towards cash hoards is simple. Where a cash hoard has been used, either to commence a business or to buy investments, the Revenue will not readily believe that it ever existed. Where on the other hand there is evidence that a cash hoard has existed, or where, for example, the taxpayer's house is burnt down and his life savings destroyed, the suggestion is made that he accumulated the cash, not from genuine savings, but from undisclosed profits.

In the first case, therefore, the suggestion is that the capital represented by the cash arises from undisclosed current profits which have escaped assessment; and in the second case that it represents undisclosed past profits which have likewise escaped assessment. In any case it is con-

tended that the cash should be assessed and tax charged – probably with heavy penalties in addition.

This 'Morton's Fork' approach to the cash hoard may achieve a fair result in the case of taxpayers who have been dishonest, and is based upon the assumption that in dealing with their finances, taxpayers are always cool, detached, and calculating. It can press very hardly upon those taxpayers who are honest, however, and ignores the fact that many taxpayers are not always guided by reason in their financial affairs. Many are guided by hunches, and a desire to keep some of their liquid assets, perhaps even a large part thereof, in cash, is a common and natural, if not entirely reasonable, occurrence. Moreover, for the simple reason that such a course avoids the attention of thieves, the possessor of a cash hoard is secretive about it.

The entirely reasonable 'financial man' is, in fact, as much a figure of mythology as the 'economic man'. It should be remembered that the virtues of thrift were much more widely canvassed before the war than today, and many honest men commenced as boys to save a few shillings or even a few pence each week, increasing the amount as they became able, and continuing the habit until late in life. Often they later acquired bank accounts, but the old habit still continued and as a result they may have both bank accounts and cash hoards. This state of affairs can arise in many other ways, and it is by no means always the case that when he begins to use a bank a man at once deposits his cash savings.

Many accountants will have experienced actual cases of this nature, yet inspectors of taxes will often imply that this does not happen, suggesting that a man might have cash, or he might have a bank account, but he would not be a 'hybrid'. This, too, seems quite unrealistic and it is fair to say that a large number of taxpayers, both honest and dishonest, who have large sums of cash also have bank accounts and are therefore in this sense 'hybrids'. This somewhat unrealistic approach on the part of the Inland Revenue has caused great worry to many honest taxpayers; many are left with a sense of grievance and the feeling that they have been the victims of injustice.

It is true, of course, that very many dishonest taxpayers have been brought to book in this way, but one may doubt whether this entirely justifies those cases where honest taxpayers have been harassed, perhaps browbeaten and even penalized, for no reason other than that they preferred to

have their savings in cash. This is not to say that cash hoards do not call for inquiry; but it should be more readily accepted that cash savings are in themselves no more disreputable than any other savings, and that there is room for a move towards a more balanced appraisal of the position in many instances, rather than the present tendency to assume, almost as a reflex action, that the possession of a cash hoard indicates dubious activities calling for detailed investigation.

In short, it should not be too much to ask that the *official view* that most taxpayers are honest, may always be adopted by the local officer until he has some good and sufficient reason to think otherwise.

Artificial Profits

The tendency to interpret the law narrowly and perhaps oppressively also seems to have strengthened in recent years. Again it must be admitted that the Inland Revenue have had much to contend with, and the experience of such activities as dividend-stripping, whereby certain taxpayers have made use of relieving provisions in the law to mulct the Revenue, certainly have not been conducive to a liberal policy. At the same time, the activities of some taxpayers should not be permitted to damn all, and these activities are not therefore really relevant to this question.

The case of *Sharkey v. Wernher* (34 A.T.C. 263; 36 T.C. 275) gave rise to many anomalies, for despite the admirable logic of the learned judges in the House of Lords, it is hardly realistic to say that when a man takes something out of his stock for his own use, he makes a profit. All that happens is that he pays less than many others for the goods which he uses. Nevertheless, despite the many concessions which are made in the application of this case, it is applied very widely with the result that many taxpayers are taxed on an artificial profit exceeding their real profit. One would have thought that this case might have been kept in reserve by the Revenue for use only in exceptional instances involving some measure of abuse; the very fact of the many concessions made, indicates the inequity of the result which the case produces.

A further illustration of this type of activity is the tendency for some inspectors to try to bring into charge under Case VI of Schedule D, profits which are clearly assessable under Case I or Case II. Sometimes this is done as a matter of convenience, but all too often one suspects that the reason is either that earned income relief cannot be obtained in respect of Case VI assessments, or alternatively that Case VI losses cannot be

relieved under the provisions of Section 341 of the Income Tax Act, 1952. Indeed, in those cases where the inspector persists in the attempt to use Case VI, one can see no other real motive for his actions.

Where this happens, the inspector is really doing nothing more than attempting to deprive the taxpayer of reliefs which are his right. His position is therefore quite indefensible and his actions no better than those of the taxpayer who unlawfully attempts to avoid paying his just dues. It will be objected, of course, that such cases are a minority and that Head Office would curb such excess of zeal if the facts were brought to its notice. There are, however, many taxpayers who do not employ accountants and are not aware of their rights: but more important is the feeling that such cases often arise from an anti-taxpayer attitude of mind which stems from the drive against tax evasion – a policy fostered by Head Office but at times interpreted locally as a drive against taxpayers. It is submitted that the Inland Revenue should take steps to discourage this attitude of mind on the part of its officers no less vigorous than the steps taken to bring dishonest taxpayers to book.

Schedule E Expenses

It should not be supposed, however, that this attitude is confined exclusively to a few local tax districts. There are signs of its existence much higher in the Department, and it perhaps stems from policies formulated outside. If this were not so, it would be difficult to understand the official attitude to the Schedule E expenses rule, for example. This rule has been the subject of more critical comment in the Courts than almost any other single provision in the taxing statutes. Despite its obvious and genuine inequity, however, it continues to be applied by the Revenue with the utmost vigour. Schedule E taxpayers are probably the weakest single section of the tax-paying public, since they are relatively unorganized and inarticulate, and in addition they lack, generally speaking, the large financial resources necessary for litigation. In the Finance Act, 1958, a small measure of relief was given in respect of professional subscriptions, and arising from the 1961 Budget it appears that the deductions for 'home savings' – always of doubtful validity – will cease. As yet, however, no action at all has been taken to implement the promises of further relief, and one cannot but suspect that such relief as has been given is little more than a sop designed to silence the more vocal of

the victims of this legislation. Even if it is difficult to redesign the legislation – and the Government has certainly not lacked advice on the subject – concessions could have been made. Yet despite the many concessions made in other directions, no interim relief has made its appearance, and the recent case of *Brown v. Bullock* illustrates how far the Inland Revenue is still prepared to go in applying this legislation as strictly as possible.

Perhaps the slow progress in this matter may owe something to the fact that much is made of problems concerning expense accounts in fiscal debates. While it would be idle to deny that abuse exists in this respect, the matter should be kept in proportion. After all, even though some individual sums may be large, it is undeniable that such revenue as may be lost to the Exchequer through this cause is infinitesimal beside the vast amounts collected in income tax and surtax. Moreover, it must not be forgotten that the Inland Revenue already possesses very wide powers under the provisions of Chapter II of Part VI of the Income Tax Act, 1952, to enable the department to deal with cases of this nature. Indeed most accountants will know of cases in practice where it is doubtful if the allowance received is sufficient, owing to the difficulty which taxpayers experience in keeping adequate personal records of relatively petty expenditure.

Much Needed Reforms

This question of the Schedule E expenses rule leads directly to the third cause of friction mentioned at the beginning of this article, namely, the failure to introduce much needed reforms expeditiously. It is greatly to be hoped that a very real measure of reform in connection with this rule will not be much longer delayed, if only in order to avoid the suspicion of official hopes that procrastination may cause the matter to go by default. This, however, is by no means the only reform which is overdue. There is a strong case, for example, for extension of industrial buildings allowance to all commercial buildings. It is difficult to see what valid argument can be advanced against this reform, but despite the fact that it is widely advocated, nothing has been done in the matter.

A further point concerns the making of surtax directions. At present, if a direction is made, it must be made in respect of the whole of the income of the company. It is widely advocated that the Special Commissioners should be permitted to make directions in respect of that part of the

income of the company which, in their view, should have formed a reasonable distribution, leaving the balance untouched. It is, of course, possible to negotiate a distribution with the Special Commissioners, so avoiding a direction, but it is submitted that this is hardly satisfactory for the taxpayer should be able to know his position with reasonable precision. The fact that negotiations are possible, indicates acceptance of the view that the present position is unsatisfactory.

It is possible to draw up a considerable list of much needed reforms which have received wide support but have been shelved for any years; but such an exercise here is impractical at the present time. The point it is desired to emphasize is that reform is important and if the taxpayer is to be expected to deal honestly and conscientiously with his affairs, as he quite rightly is, then it is no less to be expected that the legislation by which he is governed should be amended promptly when a clear case for relief is made out. Indeed, reform is part of the price which must be paid for a taxation system to run smoothly and harmoniously.

The Price of Harmony?

As stated earlier in this article, it has been a matter of some pride that relations between the Revenue, the accountancy profession and the public have been so harmonious. It is to be hoped they will always remain so, but this will not be the case if efforts are not made by *all* concerned to preserve that harmony. Unfortunately, there will always be some who fail their obligations as taxpayers, and should be brought to book. At the same time, it may well be better that one or two unscrupulous taxpayers should escape, than that honest men be driven by sheer exasperation to dishonesty.

Of course there are cases of abuse, but it would be idle to suppose that legislation can ever remove them completely without a degree of encroachment upon personal freedom which upon mature reflection must strike one as repugnant. There is a rather natural tendency to exaggerate the importance of these cases without full knowledge of the facts and an atmosphere is thereby created which is wholly unhealthy. It is to be hoped, therefore, that due account will be taken of these matters by all concerned; for while there are those who may regard being beastly to taxpayers as good clean fun, there is a danger that such humour may cause the golden eggs to become addled.

The Accounting World

SOUTH AFRICA

Undistributed Profits Tax

PRIVATE limited companies in South Africa are liable for a tax of 5s in the £ on the amount by which their 'distributable income' exceeds dividends paid. 'Distributable income' is calculated broadly by taking the profit as adjusted for income tax and deducting therefrom income tax payable plus 40 per cent of the assessed profit. Public companies are not liable for this tax, but the Income Tax Act, 1961, will limit the previous definition of a 'public company' for tax purposes as one in which, *inter alia*, the general public is 'substantially' interested. Under the new Act, more than 50 per cent of the equity must have been held throughout the year by the public, either directly as shareholders in the company or indirectly as shareholders in other public companies.

The liability for undistributed profits tax can be avoided by increasing dividends, though this may be a highly inconvenient form of avoidance, and impossible for the 1961 year of assessment if the accounts have been closed and the dividends already declared. The new provisions have come as a shock to many of the smaller public companies, particularly 'family' concerns, which have hitherto followed a prudent policy in relation to profit distributions.

Incorporated Society Prize

CONSEQUENT upon the process of liquidation of the Society of Incorporated Accountants, the funds of the South African branches were deposited with the Joint Council of the Societies of Chartered Accountants of South Africa, to be held in trust for the benefit of the profession in general. The Council has now announced that an annual cash prize of £20 will be paid from this fund to the candidate obtaining first place in the qualifying examination. The prize will be known as the 'Incorporated Society Prize', and is intended to perpetuate the name of the Society amongst accountancy students in South Africa.

AUSTRALIA

Birthday Honours

MR W. S. PHILIP, F.C.A.(AUST.), was named in the recent Birthday Honours List, being awarded the C.M.G. for his services as President of the Board of Management of the Alfred Hospital, Melbourne.

Mr Philip was formerly a partner in Price Waterhouse & Co, international firm and in the Australian firms of Flack & Flack and Price Waterhouse & Co; he retired from practice a few years ago.

POLAND

Survey for Business Men

THE complications and potentialities of trading with Poland are expertly explained in a report issued recently by the goodwill mission, led by Mr K. J. C. May, chairman of the Anglo-Polish section of the London Chamber of Commerce, which went to that country last February.¹ The dual objects of the visit were to demonstrate British interest in Poland as a market for two-way trading and to find out about the Polish economy and its possibilities for British business men.

The resultant report is divided into three sections and the most intricate of these is the first, dealing with the strict internal arrangements for controlling Poland's foreign trade. An understanding of these is essential to any company contemplating either exporting goods to or importing goods from Poland. The second section synthesizes the impressions formed by members of the mission in the course of their tour of selected undertakings associated with agriculture, timber, building materials, chemicals, coal, machine tools, shipbuilding, steel and textiles. The third section considers the prospects of increasing Anglo-Polish trade and what positive steps should be taken towards doing so.

The general, present difficulty of trading with Poland as a nation is that although its exports to the United Kingdom are more than twice its imports therefrom, its overall sterling position is not sufficiently strong to meet the planned increase in British exports to £28 million in 1965 without stepping up Polish exports. The Poles are studying recommendations made by the mission during its visit and the trend of future trading may well be substantially influenced by the efforts made to implement them.

CANADA

Golden Jubilee of

The Canadian Chartered Accountant

THE *Canadian Chartered Accountant*, the monthly journal of The Canadian Institute of Chartered Accountants, celebrates its fiftieth year of publication this month. To mark the event, the golden jubilee issue includes a message of congratulation from The Duke of Edinburgh and special articles contributed by prominent members of the profession in public practice and industry, including Mr J. Grant Glassco, F.C.A., Chairman of the Royal Commission on Government Organization, and Mr Walter L. Gordon, F.C.A., Chairman of the 1955 Royal Commission on Canada's economic prospects.

A leading article refers to some of the changes

¹ *Poland: A Survey for Business Men*. (London Chamber of Commerce (Inc.), 69 Cannon Street, London, EC4.)

which have taken place in the accounting world since the first issue was published in 1911. The Canadian Institute of Chartered Accountants at that time had 246 members compared with over 10,000 today. Reference is also made to some of the changes likely to take place in the accounting profession in the next decade or so. These include a rise in the educational requirements for admission to the profession, extension of facilities for continuing education of practising chartered accountants, expanding opportunities for services to management and strengthened relations with other professional and business groups and Government departments.

Chartered Accountants' Conference

THE annual conference of The Canadian Institute of Chartered Accountants is to be held in Toronto from September 24th to 27th, when over 2,000 members and their wives are expected to attend. It will be the largest conference in the history of the Institute.

Opening addresses will be given by Mr J. A. Wilson, F.C.A., President of the Canadian Institute, and Mr H. C. Green, Secretary of State for External Affairs. Visitors from the United Kingdom will include Mr Reginald Maudling, President of the Board of Trade, who will address the conference, and Mr W. H. Lawson, C.B.E., B.A., F.C.A., a Past President of The Institute of Chartered Accountants in England and Wales, who will present a paper on accounting principles and practice in the United Kingdom.

NEW ZEALAND

Birthday Honours

THREE members of the New Zealand Society of Accountants were named in the Birthday Honours List. Mr John Turnbull, A.R.A.N.Z., of Wellington, general secretary of the New Zealand Public Service Association from 1945 until early this year, receives the O.B.E., and the M.B.E. has been awarded to Mr Norman McLeod Speer, F.R.A.N.Z., general manager, Auckland Electric Power Board from 1951 to 1959, for services to the electrical industry, and Mr Norman Webley, F.P.A.N.Z., senior partner in the firm of Webley & Ruby, Public Accountants, of Dannevirke, (Hawke's Bay District), for services to local government.

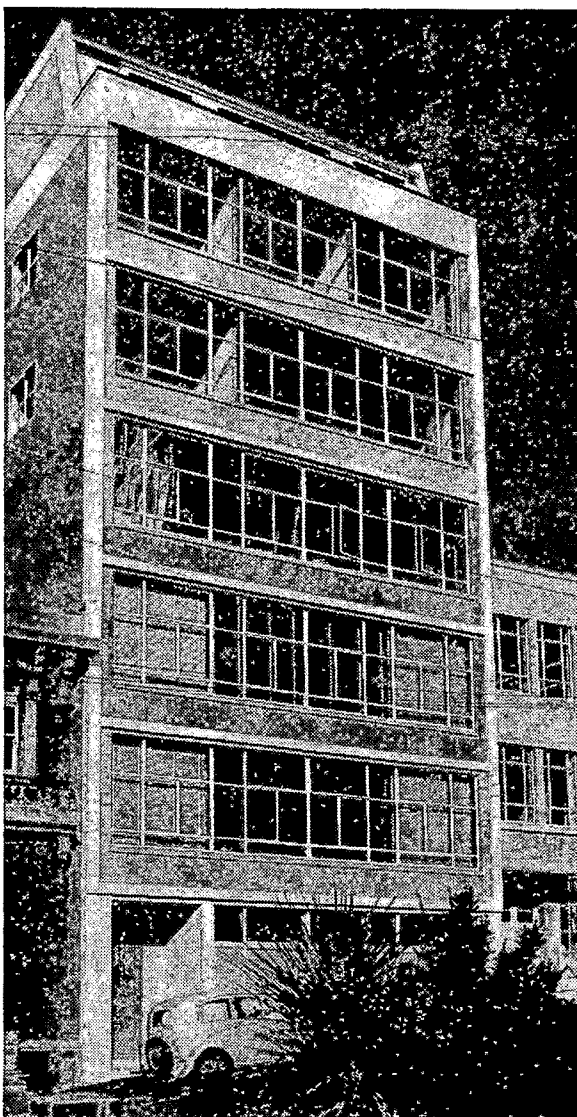
Society's New Premises

THE New Zealand Society of Accountants, whose membership numbers 7,000, recently moved its headquarters to new premises in Wellington. Our photograph shows the front of the new building in which the Society now has its offices.

The boardroom and committee room, both handsomely appointed in contemporary style, are situated on the fifth floor, together with the library, to which provision has been made for an annexe for use as a country members' room. A further room is expected

to be utilized later as the headquarters of the students' societies. The administrative offices comprise a reception hall, a main office and adjoining stationery room, secretary's office, three other executive offices, a staff room, machine room, and a kitchen. The whole suite, with its attractive colour scheme and large windows, is designed to be light and spacious.

Several hundred members of the Society from all parts of New Zealand have accepted an invitation to inspect the new premises, and we understand that by the end of the year it is hoped that hundreds more will have seen for themselves the result of the planning designed to ensure that the Society is housed in surroundings appropriate to a senior professional body.



A view of the modern building in Wellington in which the new offices of the New Zealand Society of Accountants are situated.

Weekly Notes

Municipal Treasurers' Examinations

IN the examinations of The Institute of Municipal Treasurers and Accountants held last May, a total of 968 candidates sat, of whom 375 (39 per cent) were successful.

In Part A of the Final, there were 327 candidates, of whom 129 (39 per cent) passed, compared with 89 successful candidates (40 per cent) in the November 1960 examination. In Part B there were 244 candidates, of whom 103 (42 per cent) were successful; in the November 1960 examination 75 (47 per cent) passed.

A total of 397 candidates sat for the Intermediate and 143 (36 per cent) passed, compared with 90 (37 per cent) in the November 1961 examination.

Places and prizes will be awarded on the combined results of these examinations and those to be held next November. The names of the successful candidates in the two parts of the Final examination, together with a summary of the results, appear elsewhere in this issue.

Accountant's Certificate Rules

AT the recent annual conference of The Law Society one of the committee sessions was devoted to consideration of the proposed amendment of the Solicitors' Accounts Rules and the Accountant's Certificate Rules. The chairman, Mr R. Long, stated that discussions were taking place with the English, Scottish and Irish Institutes and The Association of Certified and Corporate Accountants, on the form of accountant's certificates with the underlying object of reducing the risk of defalcations and to establish a more satisfactory check on solicitors in order to prevent defalcations occurring by oversight.

The principal amendment proposed to the Accountant's Certificate Rules is that rule 4 should make explicit for the first time the duty of the accountant to make a test examination of the clients' files. It would be made obligatory for the accountant to make a test inquiry into transfers from the ledger account of one client to the ledger account of another and therefore compel a solicitor to maintain some form of evidence that such transfers were duly authorized. It was stated that the absence of such a requirement had been a serious weakness in the rules which had for many years helped to conceal fraud.

The proposed new form of accountant's certificate would have the merit of containing three possible types of qualification, namely (a) trivial errors (as on the existing certificate); (b) matters about which the accountant had been unable to satisfy himself and the reasons therefor; and (c) breaches of the rules.

Inquiry into Shipbuilding

THE state of the order book of the United Kingdom shipbuilding industry has been a cause for concern for some time. In a debate on shipping and shipbuilding in the House of Commons last week, the Minister of Transport said that the tonnage of the industry's exports compared disastrously with its European rivals. Even worse, in his opinion, was the tendency for British shipowners to order their tonnage abroad. In the last three years British shipyards have lost in this way one-quarter of a million tons of orders worth £140 million.

In his view, the causes of depression were a need for better management, more skilful employment of labour, and hard work. Last year the industry lost 350,000 days through strikes.

The Minister announced that an inquiry was to be made by a firm of chartered accountants, Peat, Marwick, Mitchell & Co, to analyse and summarize the reasons for the present state of the industry and to report to the Government. The firm will work closely with the General Council for Shipping. In the words of the Minister the object of the inquiry is 'to help, and a cool, clinical analysis and diagnosis of the reasons for losing orders surely is the best basis on which remedial action can be taken'.

There is not indeed a great deal of dispute among disinterested observers as to what is wrong with the shipbuilding industry although there is a good deal of difference of opinion between management and labour on the subject. The difficult part of the exercise will be when remedial action is considered.

Salaried Staff Earnings

INFORMATION on the earnings of non-manual workers is now being collected and analysed by the Ministry of Labour. The results of the second annual inquiry held in October 1960 are published in the June issue of the *Ministry of Labour Gazette*, some three months earlier than those of the first inquiry.

The Ministry describes the employees covered by this inquiry as administrative, technical and clerical employees. The returns obtained in the 1960 inquiry covered about 86 per cent of all the salaried employees in the industries and services covered—namely, manufacturing, mining and quarrying, construction, and gas, electricity and water. This percentage cover is about the same as in 1959. Combining the earnings of the monthly-paid and weekly-paid employees, the 1960 results show that the average weekly-paid earnings of male employees in manufacturing industry in October 1960 were £19 7s, an increase of 5.7 per cent over the twelve months. The inclusion of the mining, construction and utilities industries brings down the average to £19 3s 7d, which is 6.2 per cent higher than in 1959. The earnings of female employees over the field of manufacturing industry show a rise of 4.4 per cent.

The three industries with the highest averages for

male earnings in 1960 were: chemicals, £21 3s 7d; paper, printing and publishing, £20 18s 1d; and textiles, £20 4s 7d.

Over the same twelve months, earnings of male manual employees in manufacturing industry increased by 6.7 per cent, youths' earnings by 12½ per cent, women's, aged 18 or over, by 4.9 per cent, and girls' by 6.4 per cent. Weekly wage rates, as distinct from earnings, rose by a smaller amount, 2.6 per cent in fact in manufacturing industry taken as a whole.

Staff Attitudes on Take-overs

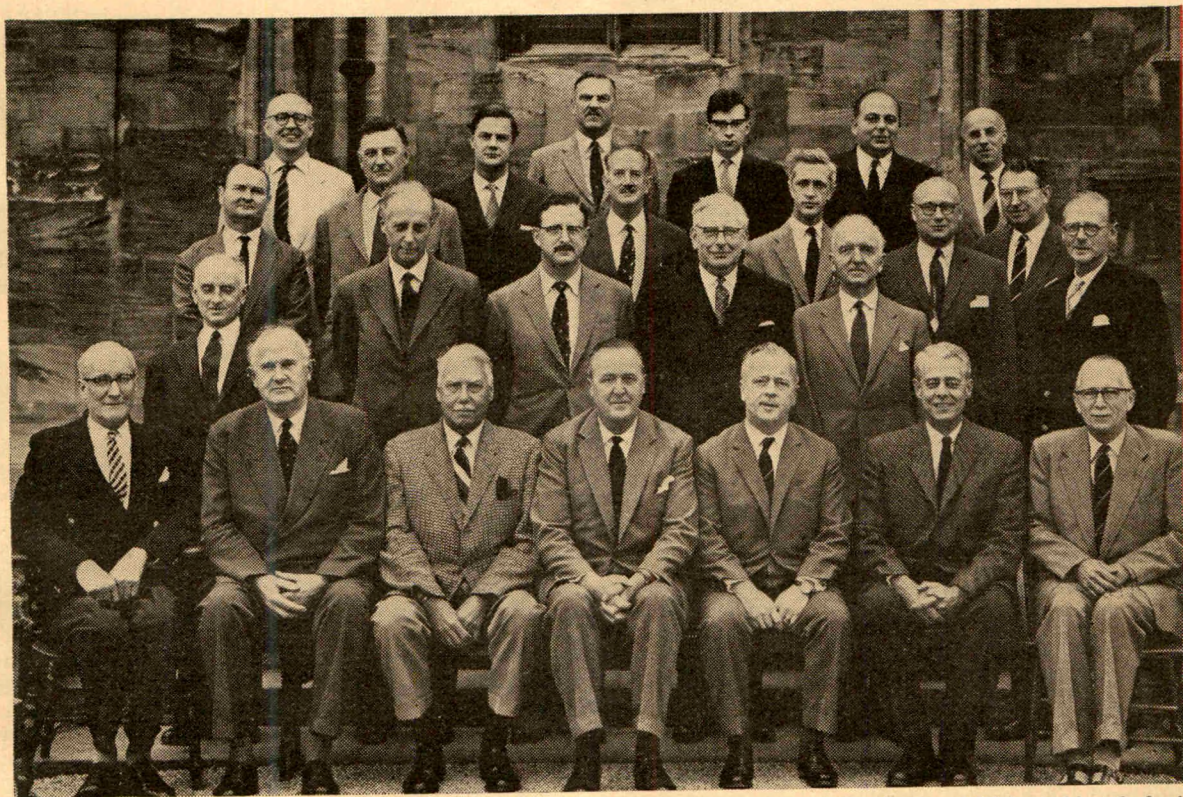
WHAT is the effect of a take-over on the employees in a group of companies? This question is being studied by the National Institute of Industrial Psychology with the help of a research

grant from the Department of Scientific and Industrial Research.

The first stage of the survey which covered the immediate effect of the change of ownership has been completed. The second stage which covers the survey of attitudes to change which follow the take-over will begin later this year.

According to the report on the investigation published by the D.S.I.R. in *Research for Industry 1960* the investigation is being undertaken among employees of eleven companies recently taken over. It has always been one of the arguments used against take-over bids that they have a bad impact on the management and employees taken over. This investigation should go some way towards substituting fact for what has been so far hearsay and rumour.

The Institute's Oxford Course: Some Personalities



Some personalities at the summer course of The Institute of Chartered Accountants in England and Wales held at Oxford last week-end and referred to in a leading article in this issue.

Front row (left to right): Mr ALAN S. MACIVER, C.B.E., M.C., B.A., *Secretary of the Institute*; Mr P. F. CARPENTER, F.C.A., *Vice-President of the Institute and Chairman, Summer Course Committee*; Lieut.-Col. D. V. HILL, M.A., *Steward of Christ Church*; Mr P. F. GRANGER, F.C.A., *President of the Institute*; Mr H. C. TREFFERS, *President of the Nederlands Instituut van Accountants*; Mr J. L. CAREY, *Executive Director of the American Institute of Certified Public Accountants*; Mr D. V. HOUSE, F.C.A., *member, Summer Course Committee*; **Second row:** Mr R. D. R. BATEMAN, M.B.E., F.C.A., *Leader, Group A*; Mr T. A. HAMILTON BAYNES, M.A., F.C.A., *member, Summer Course Committee*; Mr R. O. A. KEEL, F.C.A., *Speaker*; Mr A. B. SNOW, F.C.A., *Speaker*; Mr J. H. MANN, M.B.E., M.A., F.C.A., *member, Summer Course Committee*; Mr C. H. S. LOVEDAY, F.C.A., *Under-Secretary of the Institute*; **Third row:** Mr W. TAPLIN, M.A., B.COM., *Editor of 'Accountancy'*; Mr G. M. METCALFE, F.C.A., *Leader, Group E*; Mr S. J. D. CORSAN, F.C.A., *Leader, Group F*; Mr D. G. BEE, F.C.A., *Leader, Group C*; Mr D. P. HUBBARD, B.A., *Assistant Secretary of the Institute*; Mr G. E. MORRISH, F.C.A., *Leader, Group F*; Mr C. J. PEYTON, F.C.A., *Leader, Group H*; **Back row:** Mr H. P. PATTERSON, F.C.A., *Leader, Group G*; Mr D. F. DODD, T.D., F.C.A., *Leader, Group B*; Mr F. M. MOYS, B.A., *Administrative Assistant of the Institute*; Mr G. A. HOLMES, F.C.A., *Assistant Editor of 'Accountancy'*; Mr A. W. HOWITT, M.A., F.C.A., *Leader, Group D*.

Tales of a Tax Man

by HAROLD E. COX

4 - ACCOUNTANTS AND I

YOU will note I have used the companionable 'and', not the antagonistic 'versus'. As I have previously stated, during my thirty-six years as an Inspector of Taxes I served in nine different towns, five in England and four in Wales. I can therefore claim to have had a fairly comprehensive experience of accountants of all labels and vintages. Perhaps the most striking of all was the one who displayed with an enviable panache, the following insignia at the head of his notepaper: 'A.B.T., F.B.I., F.C.I., F.C.C.S., A.S.P., F.I.C.A., F.C.T.A., M.S.S., C.I.D., etc.'

As they say in Wales, 'He's got his letters'; and of course they make your simple F.C.A. look rather naked. I am particularly fascinated by that 'etc.'

Then there was another who proudly declared himself to be, 'The Southern and South Eastern Income Tax Reclamation Society. (Founded by John Smith. President: John Smith. Secretary: John Smith. Please address all communications to the secretary)'. I invited this trifid individual to call to see me. He was a delightful, white-bearded old gentleman, dressed in a Norfolk jacket and cycling breeches. He propelled himself around on a tricycle.

The first interview I had with a chartered accountant was in a London suburban tax office. I had been an assistant inspector for two years and was feeling my way along rather furtively, but quite undisturbed. I had examined the voluminous accounts of a Thames-side engineering company and there were several rather mystifying points with which, I felt sure, the accountants would help me. The appointment was arranged and on the morning fixed, a rather elderly man called at the office and was shown up to my room. We greeted each other briefly, he put down his two cases and walked out. A couple of minutes later he reappeared followed by a gentleman of imposing stature - top hat in hand, frock-coat, buttonhole, winged collar - the complete 'professional' uniform. He was that some time President of the Institute, the late Mr William Cash; the herald who had preceded him was his personal secretary. There were introductions and we all took our seats.

Mr Cash's first remark was, 'You seem to be rather young to be dealing with this matter'. I told him quite frankly that, officially, I was still in diapers. I had listed the various points which had rather bewildered me and I invited him to enlighten me. He was charming and courteous and most patient; he explained away my problems clearly and concisely. We had a long chat afterwards and he assured me he would be delighted to help me at any time - 'Just telephone me'.

The following day I wrote to thank him for his

kind acceptance of my inadequacies and for his most helpful explanations. He replied, thanking me for my 'thank you' letter. Life was then urbane, good-mannered and civilized. It was a far cry from there to that eccentric 'accountant' who would arrive minus his tie or socks, and on one occasion with odd shoes, one brown, one black.

There are naturally as many human types of accountants as there are of inspectors although in recent years there has been a pronounced tendency for both to become standardized in appearance and outlook. This is one aspect of the changed pattern of our present civilization which to me is most regrettable. The individual is being replaced by the type.

With one or two exceptions I have always been on good terms with accountants. There must be divergencies of opinion about contentious problems because of the different directions from which we approach them.

I recall one accountant who was chronically bad-tempered and cantankerous in all his dealings with the tax office. I entered the lists quite cheerfully and tried to neutralize the acid in his system with a bland and quiet kind of answer. But it all bounced off him. We continued our battle of words and eventually he reported me to Somerset House for being discourteous, obstructive, etc. Coming from him this was indeed ironical and so I wrote a letter telling him precisely what I thought about his boorishness and his perversity, suggesting that he should send my letter to Somerset House.

A couple of days later he telephoned me. 'Mr Cox, I hope you're quite well'. I said I was and hoped he was equally well. The next sentence rocked me. 'Do you know, Mr Cox, I like a man who stands up to me. All these other inspectors say "Yes, Mr T. All right, Mr T." but not you'. This went on for several minutes and I invited him to lunch. He came and I told him the following story:

An Inspector of Taxes died and an accountant in the town suggested to some of his professional colleagues that it would be a thoughtful gesture on their part to send a wreath. This was done and a day or two later the accountant sent his office boy around to collect the contributions. His first call was at the office of an accountant who was obviously rather liverish. The boy explained his mission. 'How much do you want?' 'Five shillings, please', 'Here's a ten shilling note', 'I'm sorry, Sir, but I haven't any change'. 'Change! Who asked for change? I want you to keep the other five bob and go and bury another so-and-so inspector!'

Ah well! He was entitled to his outburst. Fortunately, however, the relations between accountants and inspectors are seldom on this low level. I have no complaints.

And so it must go on - the accountant and the inspector, or the accountant *versus* the inspector. One taxpayer knew where his preference lay when he wrote to the inspector: 'I find that the statement of tax due is far in excess of my accountant's figures. We had, therefore, better cancel yours.'

Reviews

Guide to Company Balance Sheets and Profit and Loss Accounts

Fifth edition by FRANK H. JONES, F.A.C.C.A., A.C.I.S. (W. Heffer & Sons Ltd, Cambridge. 55s net.)

Since the last edition of this book appeared, greater emphasis has been laid by the business world on the better presentation of company accounts. The practice of take-over bids, the growing popularity of interim and preliminary statements, the treatment of inflation and the discussions on shares of no par value and on non-voting shares are among other trends and topics to have emerged, or to have been resurrected in the same interval. Mr Jones, therefore, has seen fit to revise and expand sections of his text and to consider, at some length, such controversial matters as the disclosure of turnover totals, the measurement of true profits and the extent to which detailed information should be given in published accounts. His coverage of these items is consistent with his original policy when first writing the book that accountancy is a dynamic subject, continuously developing, and that the change which is inevitable should be recognized and incorporated within the framework of essential and permanent fact.

Economics: The Science of Prices and Incomes

by H. SPEIGHT. (Methuen & Co Ltd, London. 42s net.)

A new book for students studying elementary economics must satisfy a number of criteria, the most important of which is that it should stand comparison with the two books which have for so long dominated this market. This it does most satisfactorily. The author lectures at Leeds University and this book probably reflects his lectures to his first- and second-year students.

The content is the same as in other works in the field and the level of exposition throughout is good; the applied sections on banking and international trade are up to date. All in all, this should be the first of several editions, unless the price – which is high compared with its competitors – discourages students.

The Antitrust Laws of the United States of America

by A. D. NEALE. (Cambridge University Press, London. 45s net.)

Described as 'a study of competition enforced by law', this long and scholarly book – No. XIX in the series of economic and social studies sponsored by the National Institute of Economic and Social Research – is of outstanding interest to those in the

United Kingdom now grappling with the legal consequences of the Restrictive Trade Practices Act of 1956. The antitrust laws of the United States are far-reaching in their scope and comprehensive in their application and it is no coincidence that the country most advanced in the furtherance of this liberal legislation should be so spectacularly successful in commercial achievement.

The major part of Mr Neale's narrative reviews the laws prohibiting monopolies and restrictive agreements in America and considers the decisions arrived at in the leading Court cases. The remainder is devoted to relating the system as it exists to the background which brought it into being and to conjecturing how efficient it would be in other countries, in particular the United Kingdom, where the control of monopoly by law is, by comparison, a new conception.

Mr Neale, a British civil servant, has fully mastered a most difficult subject and some of the many illuminating footnotes to his text have a Gibbonesque edge. His study – an admirable combination of history and philosophy in which fact and opinion are clearly distinguishable – deserves wide currency among lawyers, economists, accountants and business men in both the United States and the United Kingdom.

SHORTER NOTICES

COMPANIES: LAW AND PRACTICE. Supplement to third edition, by S. W. Magnus, B.A., and Maurice Estrin, F.C.A. (Butterworth & Co (Publishers) Ltd, London. 10s 6d.) Considering that a new edition now would be premature in view of the changes which the recommendations of the Jenkins Committee on Company Law, when known, may inspire, the authors of *Magnus and Estrin* have produced a supplement to the third edition as an interim measure. It reproduces the main relevant Acts and Regulations which have appeared since 1957, tables of cases and statutes and a 'noter-up'.

MATHEMATICAL PUZZLES AND DIVERSIONS FROM 'SCIENTIFIC AMERICAN', by Martin Gardner. G. Bell & Sons Ltd, London. 17s 6d net. This is a pleasantly and sometimes amusingly written compendium of brief articles on various problems and puzzles – many of them known to schoolboys – for which their mathematical basis is developed. This is not a book for the layman, but it will interest the reader with an above average training and interest in mathematics and logic.

RECENT PUBLICATIONS

THE POUND AT HOME AND ABROAD, by Sir Ralph Hawtrey, C.B., D.Sc.(ECON.) 212 pp. 9×6. 27s 6d net. Longmans, Green & Co Ltd, London.

HOW I MADE \$2,000,000 IN THE STOCK MARKET, by Nicholas Darvas. xvii+178 pp. 8×5½. 18s net. William Heinemann Ltd, London.

RETIRE INTO THE SUN, A Practical Handbook, by Cecil Chisholm. x+189 pp. 8½×5½. 18s net. Phoenix House Ltd, London.

BY ROAD TO GREECE, by Robert Bell. 332 pp. 7½×5. 21s net. Alvin Redman Ltd, London.

THE PRACTICE OF MANAGEMENT, by Peter F. Drucker. Mercury Books No. 10. viii+355 pp. 8½×5½. Card covers. 10s 6d net. William Heinemann Ltd, London.

Finance and Commerce

Adventure

ONE hardly expects 'thrillers' at company meetings; not, at least, the sort recounted by Mr E. H. Watts, chairman of the Britain Steamship Co Ltd, at the recent annual meeting. 'I make no comment on this matter', he said, 'but merely state the facts.'

The *Wokingham*, a 10,000 ton cargo vessel of the company, was chartered last year to the Chinese Government to carry cotton from Latakia to Shanghai. 'After discharging had commenced', said Mr Watts, 'a fire started in the cargo.'

'The area was promptly sealed off and the master, the chief engineer or any other of the company's servants was prevented from sighting the damage, let alone the seat of the outbreak. The captain was taken ashore and forced to sign under duress a previously prepared statement. The Government organization, who were our agents, cabled us their resignation, so the captain was left to stand alone.'

'We on this side', said Mr Watts, 'did our best but neither our superintendents nor I, as registered manager, were allowed a visa. Eventually, the ship got away but all traces of the fire's origin had been erased.'

The episode cost the company £98,056 which 'would have been recoverable from the charterers if it could have been proved that the fire started in the cargo of cotton'.

After Plimsoll

As will be seen from the accounts which are the subject of this week's reprint, Britain Steamship carried on its operations in 1960 at a heavier loss than in 1959. It was a year of slowly but steadily improving freight rates, though this, to a large extent, was offset by higher wages. The sea, said Mr Watts, has largely lost its glamour and the incidence of earlier marriages and fuller employment at home has induced many men to leave it. Nevertheless, recent charter fixtures show a movement towards a 'break even' on total costs.

Mr Watts gave shareholders an idea of the ruthless competition that faces British shipowners on the high seas. After all that Samuel Plimsoll fought for against overloading, he said that overloading was 'legally and systematically being done today'. And the ship that carries 500 tons more than her competitor of similar design is going to live while the other starves.

How is it done? Mr Watts tells us, 'A country

which signs an international convention is not called upon to live up to it until ratification by its appropriate legislative body. Even then, no country can discipline another's ships if they start a voyage overloaded. Action can be taken only if the vessel is overloaded when it crosses the three-mile limit inwards to her discharging point, irrespective of how deeply her marks were covered when her voyage started.'

Inapplicable Rules

That, said Mr Watts, creates enough unfair competition in itself but there is more to it than that. He maintains that ship design has so progressed since the 1932 load-line convention that the 'rules' are utterly inapplicable to modern ships. The company's ship *Willesden*, commissioned this year, he stated, has more strength, buoyancy, better distribution of weights and collision risk safeguards than the *Blackheath* class, designed in 1933 to be well ahead of the then new Convention. The *Willesden* could lift another 750 tons of cargo but for the out-of-date Convention which the United Kingdom was among the few to ratify.

Worse still. Out-of-date laws gradually become ignored and 'there are few countries in the world where a ship is now held to be unseaworthy just because she is overloaded'. The *Willesden*, for instance, sailed up the Delaware to Philadelphia on its maiden voyage followed by a ship with a 4½ degree list to starboard 'and even then the tropical marks on the port side were under water'.

This meant about 650 extra tons of cargo which, in fact, was sugar and, said Mr Watts, 'I was told that there were three ships on the run who regularly overloaded and that the authorities knew all about it and thought ships were quite safe under these conditions'. How could British ships compete? he asked.

Convenience

Mr Watts traced the history of 'flags of convenience'. America, during the war, deprived in the first two years of the service of British and allied shipping, built up its own merchant fleet. After the war, the disparity between shore wages and economic sea wages was so great that, if the American merchant service was to make two ends meet, 'astronomical subsidies' would have had to be paid.

'The solution was to finance ships under the flags of nations heretofore without any maritime aspirations and to enlist cheap labour of any nationality to man them. The result was that flags of convenience had played havoc with the British merchant service'.

Mr Watts warned shareholders that 'the long-term outlook is dismal unless our Government becomes as much concerned about the British Merchant Service as are the Governments of most of our competitors about their fleets'.

FOR THE YEAR ENDED
31st DECEMBER 1960

	£	1959 £	£	1959 £
Profit before charging the following items—				
Emoluments from the Group of the Directors of Britain Steamship Company, Limited—				
Fees as Directors	3,500	123,487	97,220	
Remuneration as Executives	19,260			
(Pension to a past Director. Note 6)				
Depreciation	22,760			
Repairs and Maintenance of Fleet (Note 2)	316,457			
	220,419	559,636	458,753	
GROUP LOSS ON TRADING				
Add: Bank and other Interest		436,149	361,533	
		48,662	21,257	
		484,811	382,790	
Deduct: Income from Investments—				
Trade	1,412		6,474	
Other	478		491	
		1,890	6,965	
		482,921	375,825	
GROUP LOSS BEFORE TAXATION				
Add: Taxation on Investment Income—				
Income Tax		194	2,817	
		483,115	378,642	
Deduct: Transfer from Taxation Equalisation Account (Note 1)		140,763	124,445	
		342,352	254,197	
GROUP LOSS AFTER TAXATION				
Deduct: Non-recurring Items—				
Net Surplus on realisation of investments and of fixed assets other than ships	139,983			
Surplus on sale of investment in a Subsidiary Company		139,983	34,851	
GROUP LOSS AFTER DEALING WITH NON-RECURRING ITEMS, CARRIED FORWARD		£202,369	£219,346	

	£	1959 £	£	1959 £
GROUP LOSS AFTER DEALING WITH NON-RECURRING ITEMS, BROUGHT FORWARD				
Add:				
Profit dealt with in the accounts of the Subsidiary Companies			134,637	
LOSS DEALT WITH IN THE ACCOUNTS OF BRITAIN STEAMSHIP COMPANY LIMITED			337,006	
Deduct:				
Unappropriated Profit brought forward from last year		107,696		152,192
Add: Transfer from General Reserve		235,000		
Adjustments for previous years—				
Transfer from Taxation Equalisation Account				141,442
Provision for Depreciation no longer required for a ship sold less taxation adjustments of £42,461				44,639
Provision for Accruing Survey Repairs no longer required for a ship sold				24,375
			342,696	362,648
UNAPPROPRIATED BALANCE CARRIED FORWARD IN THE ACCOUNTS OF BRITAIN STEAMSHIP COMPANY LIMITED			5,690	107,696
PROFIT DEALT WITH IN THE ACCOUNTS OF THE SUBSIDIARY COMPANIES				
Unappropriated Profit brought forward from last year		43,856		8,109
Add: Taxation adjustment		3,802		141
Add: Profit for 1960 as above			47,658	8,250
			134,637	35,606
Deduct: Transfer to General Reserve		182,295		43,856
		140,000		
GROUP UNAPPROPRIATED BALANCE CARRIED FORWARD			42,295	43,856
			£47,985	£151,552

THIS ACCOUNT SHOULD BE READ WITH THE RELEVANT NOTES ON PAGE [110].

July 22nd, 1961

	£	£	1959 £	£	1959 £
CAPITAL AND RESERVES					
Capital					
Authorised and Issued Capital of Britain Steamship Company, Limited	.. .. .	2,500,000	2,500,000	2,500,000	2,500,000
2,500,000 Stock Units of £1 each	.. .. .	—	—	—	—
Capital Reserves	.. .. .	1,444,265	1,444,265	1,444,265	1,444,265
Revenue Reserves					
General Reserve	.. .. .	230,000	325,000	325,000	325,000
Profit and Loss Account	.. .. .	47,985	151,552	151,552	151,552
			277,985	476,552	476,552
			4,222,250	4,420,817	4,420,817
FUTURE TAXATION					
Income Tax payable 1st January, 1962	.. .. .	—	1,778	—	—
Taxation Equalisation Account (Note 1)	.. .. .	425,362	566,125	567,903	567,903
			425,362	567,903	567,903
DEFERRED LIABILITIES					
Provision for Accruing Survey Repairs (Note 2)	.. .. .	188,100	142,750	—	—
Provision for Supplementary and Non-contributory Pensions (Note 3)	.. .. .	69,210	74,807	—	—
			257,310	217,557	217,557
CURRENT LIABILITIES					
Creditors and Accrued Charges	.. .. .	192,292	253,142	—	—
Net Balance on Open Voyage Accounts	.. .. .	38,830	—	—	—
Bill Payable	.. .. .	200,000	180,649	—	—
Bank Overdraft	.. .. .	1,122,096	668,656	—	—
			1,553,218	1,102,447	1,102,447
E. H. WATTS } Directors.					
MICHAEL RICHARDS }					
		£6,458,140	£6,308,724	£6,458,140	£6,308,724

THIS BALANCE SHEET SHOULD BE READ WITH THE RELEVANT NOTES [BELOW]

**BRITAIN STEAMSHIP COMPANY LIMITED
AND SUBSIDIARY COMPANIES**

Notes on the Accounts

(1) TAXATION EQUALISATION ACCOUNT.

(c) **TAXATION EQUALISATION ACCOUNT.** The amount required for Taxation Equalisation has been recalculated to leave a balance on the Taxation Equalisation Account representing Income Tax at 7/9d in the £ and Profits Tax at 15% on the difference between the Capital Allowances on the Fleet for taxation purposes which have so far been utilised and the depreciation on the Fleet provided in the Accounts. As a result there is a surplus of £140,763 (7959—£265,887) which has been transferred to Profit and Loss Account.

(2) PROVISION FOR ACCRUING SURVEY REPAIRS AND REPAIRS AND MAINTENANCE OF FLEET.

4) **PROVISION FOR ACCRUING SURVEY REPAIRS AND MAINTENANCE OF FLEET.**
The charge for Repairs and Maintenance of Fleet includes a transfer for Accruing Survey Repairs of £81,734 (1959—£39,800). The expenditure charged to Provision for Accruing Survey Repairs during the year amounted to £36,384 (1959—£12,725).

(3) PROVISION FOR SUPPLEMENTARY AND NON-CONTRIBUTORY PENSIONS.

(g) **PROVISION FOR SUPPLEMENTARY AND NON-CONTRIBUTORY PENSIONS.**
 No provision has been made for future supplementary and non-contributory pension liabilities, except to the extent of £44,250 transferred from a Subsidiary Company in respect of its liabilities assumed by the Holding Company on 1st January, 1958.
 Supplementary and non-contributory pensions paid during 1960 have been charged to Profit and Loss Account.

(b) Group.

The provision in the Consolidated Balance Sheet comprises the amount of £44,250 referred to above and a further amount of £24,960 (1939—£30,557) in respect of supplementary and non-contributory pension liabilities of Subsidiary Companies.

(4) FUTURE CAPITAL EXPENDITURE (Applies to Holding Companies and Companies with subsidiaries or subsidiary companies).

4) FUTURE CAPITAL EXPENDITURE. (Applies to Holding Company and Group).
The estimated amount remaining outstanding at 31st December, 1960 on a contract for the construction of new tonnage was £276,970 (1959—£830,760).

5) RATES OF EXCHANGE.

5) RATES OF EXCHANGE.
Foreign and Dominion currencies have been converted into sterling at the rates ruling at 31st December, 1960.

(6) EMOLUMENTS OF THE DIRECTORS.

b) **EMPLOYMENTS OF THE DIRECTORS.**
The sum of £2,050 (1959—£2,050) has been paid by a Subsidiary Company to a past Director of the Holding Company for pension and this amount has been charged direct to Provision for Supplemental and Non-contributory Pensions in the Accounts of the Subsidiary Company concerned.

CITY NOTES

HAVING worked themselves into a state of hesitancy at the prospect of next Tuesday's interim Budget, the stock-markets have belatedly exercised their function of forecasting events. Equity share prices have virtually lost all the gain achieved in the first four months of the year - a gain for which there was little foundation - and may now be in a position to stage some recovery on the basis that the worst will soon be known.

Action on interest rates in the sphere of credit restriction and on duty and purchase tax will form the bulk of the Chancellor's interim measures. Second line currency reserves with the International Monetary Fund are likely to be called up and some form of capital issue control is considered a possibility. The main attack, however, seems likely to be on capital rather than consumer spending.

Restriction in the consumer field has failed in the past to have the desired result of pushing goods into export markets. Capital spending restrictions are likely to be imposed in the public sector of the economy through some rephrasing of spending programmes. The City, meanwhile, waits for the measures in the determined view that they should have been taken last April and not this July.

RATES AND PRICES

Closing prices, Wednesday, July 19th, 1961

Tax Reserve Certificates: interest rate (26.11.60) 3%

Bank Rate

May 22, 1958	5½%	Jan. 21, 1960	5%
June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%

Treasury Bills

May 12	£4 6s 5.04d%	June 16	£4 10s 0.42d%
May 19	£4 8s 3.18d%	June 23	£4 10s 8.47d%
May 26	£4 8s 8.74d%	June 30	£4 10s 8.94d%
June 2	£4 8s 9.61d%	July 7	£4 10s 8.80d%
June 9	£4 9s 4.14d%	July 14	£4 11s 4.47d%

Money Rates

Day to day	3-4½%	Bank Bills	
7 days	4½-4¾%	2 months	4½-4¾%
Fine Trade Bills		3 months	4½-4¾%
3 months	5½-6%	4 months	4½-4¾%
4 months	5½-6%	6 months	4½-4¾%
6 months	5½-6½%		

Foreign Exchanges

New York	2.78½-8	Frankfurt	11.08½-7
Montreal	2.86½-87	Milan	1728½-9
Amsterdam	10.00½-01	Oslo	19.97½-1
Brussels	138.62½-3	Paris	13.64½-65½
Copenhagen	19.30½-31½	Zürich	12.02-1

Gilt-edged (revised List)

Consols 4%	58½	Funding 3% 59-69	80½
Consols 2½%	38½	Savings 3% 60-70	77½
Conversion 5½% 1974	91½	Savings 3% 65-75	68½xd
Conversion 5% 1971	89½	Savings 2½% 64-67	83½
Conversion 3½% 1969	83½	Treasury 5½% 2008-12	87½
Conversion 3½%	52½	Treasury 5% 86-89	82½
Exchequer 5½% 1966	97½	Treasury 3½% 77-80	68½
Funding 5½% 82-84	91½	Treasury 3½% 79-81	67½
Funding 4% 60-90	86½	Treasury 2½%	38½
Funding 3½% 99-04	57½	Victory 4%	95½
Funding 3% 66-68	81½	War Loan 3½%	52½

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the judgments, in the 'Annotated Tax Cases'.

Littlewoods Mail Order Stores Ltd v. C.I.R.

In the Court of Appeal - June 23rd, 1961

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice HARMAN and Lord Justice DONOVAN)

Stamp duty - Ninety-nine-year lease held - Shorter lease granted by landlord - This lease assigned to subsidiary - Underlease back to parent company - Subsidiary's lease exchanged for landlord's freehold - Whether assignment a transfer from one company to another - Whether deed of exchange a conveyance on sale - Stamp Act, 1891, Schedule - Finance Act, 1930, Section 42 - Finance Act, 1948, Section 50.

The appellant company (Littlewoods) held a ninety-nine-year lease at an annual rent of £23,444 from the Independent Order of Odd Fellows, and the lease had about eighty years unexpired. On December 8th, 1958, Odd Fellows granted a lease to Littlewoods for twenty-two years and ten days at a rent of £6 a year, and there was automatically a surrender of the ninety-nine-year lease. On December 9th, 1958, Littlewoods assigned the new lease to a wholly-owned subsidiary (Fork). On December 10th, 1958, Fork executed an underlease back to Littlewoods for twenty-two years at a rent of £42,450 a year. On December 11th, 1958, a deed of exchange was made between Odd Fellows and Fork, whereby the latter assigned the lease of twenty-two years and ten days to Odd Fellows, subject to an underlease by Fork to Littlewoods, and Odd Fellows conveyed the freehold to Fork subject to the lease of twenty-two years and ten days. On December 12th, 1958, Fork executed a deed guaranteeing to Odd Fellows the payment of the rent of £42,450, and charged the freehold with the payment. On December 13th, 1958, Littlewoods executed a deed of indemnity in favour of Odd Fellows against stamp duty and penalties. The effect of these transactions was that Odd Fellows conveyed the freehold to Fork, and Fork no longer held the lease of twenty-two years and ten days, and Littlewoods held the lease of twenty-two years.

The Inland Revenue claimed stamp duty in respect of the assignment, on December 9th, 1958, by Littlewoods to Fork of the lease of twenty-two years and ten days, and in respect of the deed of exchange, on December 11th, 1958, whereby Fork assigned that lease to Odd Fellows and obtained the freehold. It was contended on behalf of Littlewoods that the deed of assignment of December 9th, 1958, was exempt from duty under Section 42 of the Finance Act, 1930, as its effect was to convey a beneficial interest in property from one limited liability company to another; and that the deed of exchange of

December 11th, 1958, between Odd Fellows and Fork, whereby the lease for twenty-two years and ten days passed to Odd Fellows and the freehold to Fork, was not a conveyance on sale.

Held (affirming the judgment of Mr Justice Danckwerts): (1) the lease of twenty-two years and ten days granted by Odd Fellows to Littlewoods was a conveyance for the purposes of Section 50 (1) (b) of the Finance Act, 1938; that Section 42 of the Finance Act, 1930, applied; and that stamp duty on this transaction was payable; (2) that the deed of exchange of December 11th, 1958, by Odd Fellows to Fork whereby the latter assigned the lease of twenty-two years and ten days to Odd Fellows, and the latter conveyed the freehold interest to Fork, was not a conveyance on sale; and that stamp duty in respect of this transaction was not payable.

Mitchell v. Ross

In the House of Lords - July 6th, 1961

(Before Viscount SIMONDS, Lord RADCLIFFE, Lord TUCKER, Lord COHEN and Lord GUEST.)

Income tax - Part-time specialist under National Health Service - Whether holding an office or employment - Whether exercising profession - Expenses deductible under Schedule E - Whether excess expenses deductible under Schedule D - Income Tax Act, 1918, Section 1, Schedule E, Rule 6 - Finance Act, 1922, Section 18 - National Health Service Act, 1946, Sections 3, 14 - Income Tax Act, 1952, Schedule D, paragraph 1 (Section 122), Section 137 (a), Schedule E, paragraphs 1, 2 (Section 156) - National Health Service (Appointment of Specialists) Regulations, 1948 (No. 1416).

The appellant held a part-time appointment under the National Health Service Act, 1946, as a consultant radiologist to the Birmingham Regional Hospital Board, and he also had private patients. In the second case heard with this case the appellant was a part-time ophthalmologist to the board, and he also undertook lecturing work to nurses. In the third case heard with this case the appellant was a part-time pathologist to the board. In the other two cases the appellants held part-time appointments, the one as a psychiatrist and the other as a consultant thoracic surgeon, with different regional boards, and also acted as locum tenens in respect of National Health appointments. All the appellants also had private patients.

By Section 3 (1) of the National Health Service Act, 1946, it is a duty of the Minister of Health to provide the services of specialists; whether at a hospital, a health centre, a clinic or at the home of the patient. The Minister carries out his duties by delegating to regional hospital boards, and if a specialist wishes to attend National Health patients, he has to take an appointment with a regional board. He may take a whole-time or a part-time appointment, and in the latter case he agrees to work a certain number of sessions or notional half-days a week; and this matter, and also his remuneration, is provided for in a contract between himself and the

board. The contract also provides for annual leave, for reimbursement of travelling expenses and for a subsistence allowance. The specialist is not subject to any control or direction as to how he should carry out his work in the sense of prescribing treatment for a particular patient. A specialist may take part-time appointments with more than one board, but a limit is placed upon the total remuneration he can receive.

The appellants incurred expenses in treating National Health patients, and claimed to be entitled to deduct the balances of their expenses under Schedule E in computing their incomes under Case II of Schedule D. The respondents contended that the appellants held offices or employments, and were assessable under Schedule E, and that the excess expenses were not deductible under Case II of Schedule D.

Held (reversing the judgment of the Court of Appeal): the excess of the appellant's expenses, after computing his Schedule E assessment, were not deductible in computing his assessment under Case II of Schedule D.

Hood Barrs v. C.I.R.

In the House of Lords - July 6th, 1961

(Before Lord REID, Lord GODDARD, Lord TUCKER, Lord HODSON and Lord GUEST)

Income tax - Loss claim - Certificate from General Commissioners - No notice to Inland Revenue for hearing - Whether appeal competent - Whether certificate valid - Court of Exchequer Act, 1707 - Court of Exchequer (Scotland) Act, 1856, Sections 17, 47 - Customs and Inland Revenue Act, 1890, Section 23 - Income Tax Act, 1918, Section 34 - Finance Act, 1923, Section 30 - Finance Act, 1937, Section 13 - Finance Act, 1953, Section 15.

At a meeting of the General Commissioners in November 1958, the appellant appealed against assessments under Case I of Schedule D for 1947-48 to 1950-51 in respect of his business as a timber merchant, and produced accounts showing a loss in each of the four accounting periods ended March 31st, 1951. The total loss was £4,221. The General Commissioners discharged the assessments. The appellant then orally applied for relief, under Section 34 of the Income Tax Act, 1918, in respect of the loss, but at the request of the parties the consideration of the claim was postponed. In January 1959, the General Commissioners sent to the parties a 'directive' purporting to make certain findings in law and directing the parties to settle the amounts of the trading losses in accordance therewith.

In February 1959, the General Commissioners held a meeting and issued certificates certifying losses totalling £34,384. The respondents were not represented at this meeting, and they did not receive any copy of any application for relief, nor a copy of any computation of the loss, other than a computation for 1947-48, which had been sent to them in January 1958. It was, however, neither alleged nor admitted

that the appellant communicated with the General Commissioners or received a hearing from them after the meeting in November 1958.

The respondents appealed to the Court of Session to have the General Commissioners' certificate quashed and set aside. The appeal was under Section 17 of the Court of Exchequer (Scotland) Act, 1856, which authorizes an appeal where, at the date of the passing of that Act, a writ of habeas corpus or a writ of certiorari might have competently issued in the Court of Exchequer. The respondents contended that the certificates showed error in law, and that the General Commissioners acted contrary to natural justice. The appellant contended (1) that the appeal was misconceived, in that at the date of the passing of the Court of Exchequer (Scotland) Act, 1856, a

writ of certiorari could not have competently issued from the former Court of Exchequer; (2) that the act of the General Commissioners in giving the certificates was an executive act, as to which a writ of certiorari could not have competently issued; (3) that error in law was not sufficient to warrant the quashing of the certificates.

Held (affirming the decision of the Court of Session): (1) the General Commissioners were acting in a judicial capacity, a writ of certiorari could have issued to them, and therefore the proceedings before them were competent; (2) in giving the certificates the General Commissioners had in the circumstances acted contrary to natural justice; (3) the Court of Session were right in quashing the certificates and setting them aside.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Great Divide

SIR, - Your leading article of July 15th highlights a most unsatisfactory feature which I have previously criticized in your columns - the tendency of the Inland Revenue to apply their own departmental practice as though having the force of law. This behaviour leaves the taxpayer with the unpalatable choice of either accepting the Revenue interpretation or going before the Commissioners, and possibly before the Courts.

I am particularly sorry to see *Fuge v. McLelland* quoted without a word of caution, as this case leaves a good deal to be desired on either side, and at present simply provides the Revenue with an unmerited weapon. The taxpayer (a dressmaker, teaching at evening classes) was not in a particularly strong position, and the learned judge, after complaining of the manner of presentation of the Crown case, found very briefly that her relationship with the educational authority was one of employment. Further, the decision is that of a Court of first instance, and lacks the added prestige of judgments of the Court of Appeal or the House of Lords. It is, of course, authoritative on its own facts, but my own experience is that the Inland Revenue seek also to apply it to other relationships in which material facts can be distinguished.

I would recommend anyone not to accept a Revenue argument based on *Fuge v. McLelland* without careful scrutiny, as the mere mention of it would suggest to me that the Inspector cannot think of anything better!

Yours faithfully,

M. BARRADELL, LL.B., F.C.A.

Pinner, Middlesex.

What a Splendid Life!

SIR, - As an interested reader of your journal I find the feature 'This is my Life' (by an Industrious Accountant) a revelation. So this is how a secretary/chief accountant spends his time. I had always suspected as much, but never before had any proof.

And what a splendid life it is! He is kept busy foiling the devilish plots of the other directors, and from time to time exchanging pleasantries with them over brandy and cigars, reminiscing about the past, solving an occasional staff problem, or merely pottering about the premises. Still, it is heartening to learn that he can nevertheless spare a couple of days in London helping his chairman with his memoirs. I swear he has mentioned eating and drinking (or rather, wining and dining) more often than working.

One wonders what his hapless and, no doubt, overworked, subordinates think of all this. Or the shareholders.

Yours faithfully,

T. SHERIDAN, M.A., A.C.I.S.

Seria, Brunei, British Borneo.

The Lighter Side of Taxes

SIR, - References in recent issues to 'the lighter touch' and 'a breath of fresh air' remind me of the letter I sent to the Inspector of Taxes when formal methods failed to obtain an alteration to my code number after the birth of one of my children:

'I am six months old. My daddy told you about me the day I was born and when he sent in his return and when he called on you and you've never said you were pleased I'd been born and I think I'm a nice enough baby and I drink lots of milk so please alter Daddy's code number so he can buy me some more milk and I'll grow up into a big strong taxpayer but if you don't do it soon I'll hate you and when I'm big I'll earn ever such a lot of money and I won't pay any tax and you'll try to catch me and you won't. - COLIN.'

I received an immediate reply!

Yours faithfully,

T. A. TURNBULL.

Edinburgh.

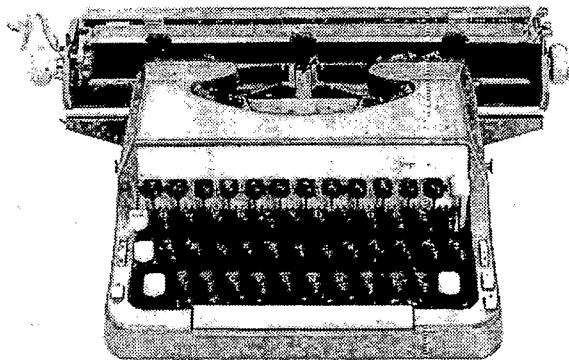
A monthly feature designed to keep readers - whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

New Office

'Middleweight' Typewriter

IN many offices there is a need for a typewriter which combines the performance of a standard machine with something like the compactness of a portable. One of the latest additions to this 'middleweight' range is the *Imperial Desk Companion*.

Its outstanding feature is an extra-wide carriage which takes foolscap sheets sideways. This overcomes



Imperial Desk Companion

the snags which commonly occur when small machines are used for typing accounts, schedules and similar documents.

The *Desk Companion* is finished in either sea-green or lime, with ivory relief. There is choice of six typefaces, to suit several languages, and special keys can be provided where required.

Price: £25 10s, or £33 with decimal tabulation.

Imperial Typewriter Co Ltd, East Park Road, Leicester.

Automatic Exchange for Small Firms

FIRMS which hitherto have been unable to justify the installation of a private automatic telephone system will be particularly interested in the introduction of a new ten-line system called the *Pax 61*.

Its main advantages are compactness and simplicity. The automatic switchboard measures only 10½ in. by 10½ in. by 6 in. For wiring, ordinary telephone cable is used, with only one pair of wires going to each instrument. The instruments themselves are ordinary dial-equipped telephones.

Extensions can be located up to three miles from the switchboard if 23 s.w.g. wire is used and up to six miles if 20 s.w.g. is used. Should the firm eventually need a larger exchange, the telephones and wiring installed for the *Pax 61* can be incorporated in the expanded system.

The *Pax 61* works from any A.C. main supply; its own power unit converts this to the 50 volts D.C. current required for operation.

Single-digit dialling from 0 to 9 caters for every extension in the system.

A 'priority' button can be fitted to selected phones, enabling the users to override the ringing tone of calls dialled from other instruments. This feature requires only one extra wire to each of the instruments concerned.

Compactness of the switchboard owes much to the incorporation of a miniature uniselector developed for the Post Office and said to have a life of some eight million operations.

Pax 61 systems can use either the new British Post Office telephone (available in various colours) or the A.E.I. Centenary Neophone (available in twenty-one colour combinations).

The system can be bought outright, with a suitable maintenance contract, or obtained on rental terms with free maintenance.

Price: £65 plus telephones and wiring

Private Telephone Department, A.E.I. Telecommunications Division, Siemens House, 3 Avon Trading Estate, West Kensington, London, W14.

Easy-to-use Adding Machine

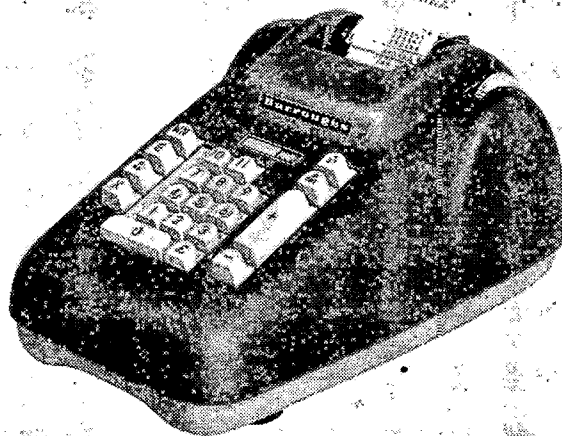
A NEW twelve-key adding machine can be used by unskilled operators for all kinds of business figure-work. The keyboard is electrically operated and has a light, easy touch which - with the careful placing of the control keys - enables the work to be done at high speeds.

After a total has been printed, the paper tape is automatically advanced to the 'tear off' position.

The keyboard has been designed to record sterling amounts. By using a control key, the machine can be converted to add or subtract whole numbers only.

Price: £69-£99.

Burroughs Machines Ltd, Avon House, 356 Oxford Street, London, W1.



•Burroughs 12-key Adding/Subtracting Machine

Equipment

Novel Typewriter Ribbon

AN entirely new kind of typewriter ribbon, known as *Twin Tapalon*, is said to halve the time spent on ribbon changes, eliminate the staining of hands and clothes, and give a quality of reproduction which approaches letterpress work.

It has two novel features. First, it is mounted on two spools; second, it incorporates a supply of concentrated ink which, by capillary action, is continuously spread over the ribbon area. The first feature means that ribbon changing merely consists of cutting the used ribbon, lifting out the spools and replacing them with a new pair.

Because of the quality of reproduction, *Twin Tapalon* is particularly suitable for preparing masters for plate or stencil duplicators. It does not smudge when erased.

The makers say that it is the result of a five-year programme of research into ways of improving copying systems, and has been rigorously tested by a panel of users. It is supplied in all standard sizes and colours.

Price from 7s 8d per pair.

Bronester Ltd, 10 City Road, London, EC1.

Inexpensive Photocopier

THE new *President* photocopying machine is small enough for personal use but sufficiently versatile to cope with departmental copying work. Of the all-electric rotary type, it has a number of features usually found only in more expensive models.

Excellent copies are produced automatically in a matter of seconds. For dealing with multi-coloured originals there is a special colour guide control which considerably simplifies the operation of the machine.

The design of the processing section greatly reduces the frequency with which the developer has to be changed. With normal use, the machine can be operated for several weeks without any attention of this sort.

The *President* takes up less desk-space than a typewriter, and looks well in modern offices.

Price £49.

George Anson & Co Ltd, Solway House, Southwark Street, London, SE1.

New Figurework Aid

COSTING only £25, the new *Model KN Triumphator* meets the demand for a simple calculator which is cheap enough to be supplied to any employee whose job involves figurework.

It is a hand-operated barrel-type machine which adds, subtracts, multiplies and divides. Capacity is seven places in the setting register, six places in the counter register, and eleven places in the product register. All registers incorporate full tens-transmission. The controls are of standard design and very easy to operate.

Applications of this versatile machine include percentage calculations, costing, checking invoice ex-

tensions, wage calculations, discount calculations and currency conversion.

The machine is 12 in. long by 6½ in. wide by 5½ in. high, and weighs just over 10 lb.

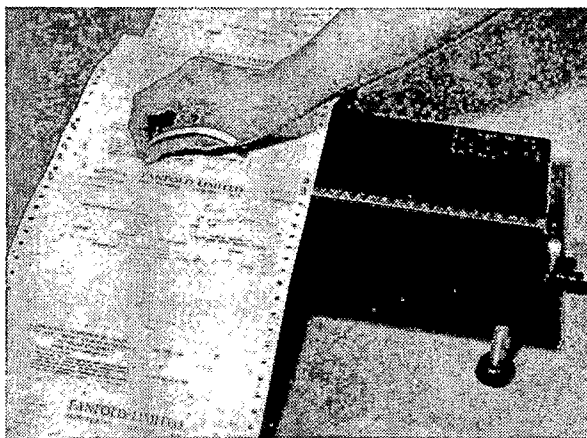
Price £25.

Broughton & Co (Bristol) Ltd, 6 Priory Road, Bristol 8.

Joining Continuous Forms

IT is often desirable to join short runs of continuous forms before loading them on to punched-card tabulators, computers, teleprinters and other business machines. By simplifying this operation a new Fanfold device makes economies in time and stationery.

It is essentially a jig which holds two runs of forms in alignment while the joining is done with special self-



Fanfold Continuous Form Joiner

adhesive strips. The strips are perforated so that they can be easily detached after tabulating.

The joiner is available in two sizes: one for forms up to 14½ inches wide, and the other for forms up to 18 inches wide.

Prices: Model I 30 gns; Model II 45 gns. Joiner strips are 30s per hundred strips.

Fanfold Ltd, Bridport Road, London, N18.

Automatic Typing Service

MOST business men have heard about automatic typing services, but relatively few have a clear idea of what they do and how much they charge. For this reason, a new booklet called the *Robotyping Lightning Estimator* should prove useful.

Issued by a specialist firm, it gives concise information on the best way to write letters for automatic typing, plus a series of tables from which it is easy to work out the precise charge for any quantity and any length of copy.

Since automatic typing can readily produce 'personalized' letters, the booklet also lists the charges for making use of 160 specially-compiled mailing lists, covering over 200,000 businesses where the names of appropriate individuals are available.

Vollerine Co, Thanet Hall, Thanet Street, London, WC1.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS PANNELL, CREWDSON & HARDY, Chartered Accountants, of Lagos, Kaduna and Kano, Nigeria, announce that Mr PAUL WHITELEY HAYLEY, F.C.A., for some years a resident manager, is now a partner in the Nigeria firm.

MESSRS ENGLISH & PARTNERS of London, Manchester, Newcastle, Cardiff, Bristol and Northampton, announce that Mr WILLIAM WOOD, F.C.A., and Mr ALAN THOMAS MESSENGER, A.A.C.C.A., who have been members of the staff for some time, have been taken into the partnership and will be attached to the Manchester office.

MESSRS MAURICE E. BULLEY & Co, of 30 Midgate, Peterborough, announce the retirement on June 30th, 1961, of Mr H. J. YOUNG, F.C.A., who has been a partner since 1947. Mr YOUNG will still remain connected with MESSRS BOWMAN, BULLEY, YOUNG & Co, 174 New Bond Street, London, W1.

Appointments

Mr H. L. Hudson, F.C.A., has been appointed chief accountant, and Mr H. Andrews, A.A.C.C.A., secretary, of Wickman Ltd.

Mr R. C. Atherton, F.C.A., has been appointed a director of New Broken Hill Consolidated Ltd.

Mr G. A. Cashin, A.C.A., chief accountant of Walker Industries Ltd and Bush (Ireland) Ltd, has been appointed accountant to the Walker group of companies.

Mr Geoffrey Smith, F.C.A., has been appointed a director of Oxo Ltd.

Mr P. D. Moorhead, A.C.A., has been appointed secretary of Colombo Commercial Co Ltd.

Mr C. R. Tustain, A.C.A., has been taken into partnership with Messrs W. I. Carr, Sons & Co, stockbrokers.

Mr F. A. H. Anthony, F.C.A., secretary of Martin Walter Ltd, has been appointed an additional director of the company.

IN PARLIAMENT

Expense Claims: Leaflet

Sir R. GLYN asked the Chancellor of the Exchequer when, and how, the Inland Revenue leaflet, setting out the rules followed in dealing with expense claims applicable to director and senior executives, will be made available.

Sir E. BOYLE: The Inland Revenue expects to publish this leaflet early in August. Copies will be obtainable from Inspectors of Taxes.

Hansard, July 12th, 1961. Written Answers. Col. 55.

Ships: Investment Allowance

Mr McKAY asked the Chancellor of the Exchequer (1) on what basis the 40 per cent investment allowance for shipbuilding is calculated; and what relation it bears to capital investment; (2) to what extent it is his

practice to base the 40 per cent investment allowance on the construction of a ship on the capital value of the ship; and to what extent this assessment is dependent on the profit made on the construction.

Sir E. BOYLE: The 40 per cent investment allowance does not apply to shipbuilding concerns; the allowance is given to a shipowner on the amount of capital expenditure incurred by him on the provision of a new (but not a second-hand) ship and is deducted from the profits assessed before arriving at the amount chargeable to tax. It does not depend in any way on the profits made by the shipbuilder.

Hansard, July 14th, 1961. Written Answers. Col. 81.

OBITUARY

Sir Alan Rae Smith, K.B.E., F.C.A.

It is with regret that we record the death on July 11th at the age of seventy-six at his home in Westerham, Kent, of Sir Alan Rae Smith, K.B.E., F.C.A., who, until his retirement in 1956, was senior partner in the firm of Deloitte Plender, Griffiths & Co.



Sir Alan was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1909 (being placed third in the Final examination of May that year), and joined Deloitte Plender, Griffiths & Co after qualifying. He very soon achieved a considerable reputation in the profession for his objective approach to accountancy problems and successive Governments were quick to note his skill as a negotiator.

He served as financial adviser to a number of Ministries and to many Government committees. These included membership of the Colonial Development Advisory Committee from 1929-40, of which he served as chairman from 1935 (in which year he received his knighthood); the Housing (Rural Authorities) Committee from 1931-34; a special committee on expenditure appointed by the Imperial War Graves Commission in 1938, and membership in 1939 of the conference on war damage to fixed property.

During the war years, Sir Alan served as chairman of the Shipbuilding Loans Committee and the Payment for War Losses of Ships Committee from 1939-40; chairman of Bunker Prices (Oil and Coal) Committee and the Reinsurance Premium Committee, Ministry of War Transport, from 1940-46, and of the Advisory Committee of Accountants to the Minister of War Transport on the Road Haulage Scheme from 1942-43. He was created K.B.E. in 1948 for his work on these committees. In 1941 he was appointed Government nominee on the Arbitration Tribunal to determine the sum payable to Courtaulds Ltd for shares in their American subsidiary acquired by the Treasury.

Sir Alan served as adviser to the Home Secretary on the revision of London taxicab fares from 1950-51 and

was a member of the Taxicab Committee in 1952. He was honorary treasurer and chairman of the finance committee of the Royal Institute of International Affairs.

During the First World War, he served as a Major in the Royal Army Service Corps and was seconded to NAAFI as chief accountant, in which role he took an active part in the expansion of this service to the armed forces. He was awarded the O.B.E. in 1918.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Taxation and Research Committee

The one hundred and fifteenth meeting of the Taxation and Research Committee was held at the Institute on Thursday, July 13th. There were present:

Mr G. N. Hunter (in the Chair), Messrs F. W. Allaway, G. R. Appleyard, J. T. Barraclough, C. V. Best, R. P. Brown, W. R. Carter, J. Cartner, L. H. Clark, S. M. Duncan, N. Cassleton Elliott, E. S. Foden, C. R. P. Goodwin, N. B. Hart, O.B.E., T.D., H. Kirton, S. Kitchen, C. Yates Lloyd, J. W. Margetts, S. A. Middleton, G. P. Morgan-Jones, R. D. Pearce, J. Perfect, A. H. Proud, J. D. Reekie, D. W. Robertson, C. Romer-Lee, H. G. Sergeant, B. D. Shaw, H. C. Shaw, W. Shuttleworth, D. E. T. Tanfield, C. C. Taylor, J. G. Vaughan, F. J. Weeks, and G. H. Yarnell, and Messrs B. Manning and B. H. Moloney, with the Assistant Secretary.

The late Mr T. S. Welch, F.C.A.

The Committee heard with much regret that Mr T. S. Welch, F.C.A., had died on July 7th, 1961.

Mr Welch had been a member of the Committee from October 1st, 1958, until the date of his death. He had served on the Management Accounting Subcommittee.

The Committee stood in silence as a token of respect.

Mr C. F. Millard, F.C.A.

The Committee was informed of the resignation from the Committee of Mr C. F. Millard. The Committee recorded its appreciation of the work of Mr Millard as a member of the Committee since October 1st, 1957, and as a member of the General Advisory Subcommittee.

Standing Sub-committees

Progress reports were received from the following Standing Sub-committees:

General Advisory
Management Accounting
Taxation
Planning.

Ad hoc Sub-committees

Progress reports were received from five special sub-committees.

Future Meetings

The next meeting of the Committee was arranged for Thursday, September 21st, 1961, at 2 p.m., and further meetings have been provisionally arranged for:

Thursday, October 26th, 1961.

„ December 14th, 1961.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the Executive Committee the chair was taken by Sir William Carrington, F.C.A., President of the Association, and ten members were present.

Applications for Assistance

Six new applications for assistance were considered; in three cases a grant was made; in one case a donation was approved as a temporary measure pending the receipt of further information and two applications were refused.

Applications for Further Assistance

Twenty-four applications for further assistance were considered. In fifteen cases the grant was renewed; in one case it was increased and in eight cases reduced owing to improvement in circumstances.

Matters Reported

The honorary secretary reported changes in circumstances in twelve cases and grants were adjusted or donations made in appropriate cases.

The death of one beneficiary, a resident in Crossways Trust Home, Grosvenor House, Brighton, since 1957, was reported.

W. B. Peat Memorial Scholarship Fund

Two grants of £30 per annum each for three years were made to assist with school fees.

SOCIAL SECURITY AGREEMENT

Federal Republic of Germany and United Kingdom

The reciprocal Social Security Agreement which the United Kingdom concluded with the Federal Republic of Germany on April 20th, 1960, has been ratified¹ and will come into force on August 1st. It replaces an earlier agreement which was signed in 1956 but not ratified because of subsequent changes in the Federal Republic's pension legislation.

The agreement covers the benefits provided under the schemes of national insurance, industrial injuries insurance and family allowances in the United Kingdom and the corresponding schemes of the Federal Republic. It enables contributions in the two countries to be added together for the purpose of claiming social insurance benefits in either.

Many people resident in the United Kingdom who were insured in Germany before the Second World War will be entitled to arrears of pension from May 1945.

APPOINTMENT OF ASSISTANT OFFICIAL RECEIVER

Mr John Austin Sell has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Ashton-under-Lyne, Blackburn, Blackpool, Bolton, Burnley, Oldham, Preston, Rochdale and Stockport, as from June 26th, 1961.

¹ The Family Allowances, National Insurance and Industrial Injuries (Germany) Order, 1961 (S.I. 1961 No. 1202). H.M.S.O., 1s 3d.

COST ACCOUNTANTS' SUMMER SCHOOL

The twelfth residential summer school of The Institute of Cost and Works Accountants is to be held at St Catharine's College, Cambridge, from Monday, September 18th, to Saturday, September 23rd.

An interesting programme has again been arranged and papers will be presented as follows:

'Inflation and growth', by Professor F. W. Paish, M.C., M.A., Professor of Business Finance, London School of Economics.

'The optimum level of tooling expenditure', by Mr D. R. C. Halford, O.B.E., B.A., B.Sc., Associated Electrical Industries Ltd.

'The control of maintenance costs', by Mr R. T. Rickers, F.C.W.A., consulting cost accountant, British Insulated Callender's Cables Ltd.

'The management accountant's influence on research and development', by Mr H. P. Southall, F.C.A., F.C.W.A., chief financial accountant, The Plessey Co Ltd.

Members and registered students only may attend the school. Application forms are available from the Secretary of the Institute, 63 Portland Place, London, W1.

**THE CHARTERED ACCOUNTANT
STUDENTS' SOCIETY OF LONDON****Autumn Residential Course**

The eighth autumn residential course for members of The Chartered Accountant Students' Society of London will take place at Balliol and Trinity Colleges, Oxford, from Thursday, September 21st, to Sunday, September 24th.

The course is open to all members of the Society, though it is intended primarily for those who have taken their Intermediate examination. The programme has been chosen with a view to bringing students the benefit of the lecturers' practical experience and a wide view of professional subjects, with the opportunity for mutual contact and discussion.

The programme will be as follows:

Thursday afternoon: 'Practice or industry', by Mr Stanley Kitchen, F.C.A., and Mr Stanley Dixon, M.A., F.C.A.

Friday: 'The Parker Report - Mr Parker in the box'. Mr W. E. Parker, C.B.E., F.C.A., President of the Students' Society and chairman of the Institute's Committee on Education and Training, will answer students' questions on his committee's recent report.

'Management accounting in practice', by Mr F. T. Hunter, F.C.A., F.C.W.A.

Saturday: 'What of the Companies Act?', by Mr Hugh T. Nicholson, F.C.A.

Sunday: Service in Balliol College Chapel.

Lecture on 'Britain, the Six and the Seven', by Mr A. R. Ilesic, M.Sc.(ECON.), B.COM., Lecturer in Economics, University of London.

Enrolment forms are available from the Secretary of the Students' Society, Mr R. J. Carter, B.COM., F.C.A., Finsbury Circus House, Blomfield Street, London, EC2, and should be returned not later than July 31st.

**SOUTH WALES AND MONMOUTHSHIRE
SOCIETY OF CHARTERED ACCOUNTANTS****New President Elected**

Mr Edgar T. Shepherd, F.C.A., senior partner in the firm of Gilbert Shepherd, Owen & Co, Chartered Accountants, of Cardiff (which was founded by his father, the late Mr Gilbert D. Shepherd, in 1904), was elected President of the South Wales and Monmouthshire Society of Chartered Accountants for the year 1961-62 at the Society's annual meeting on July 13th.



Mr Edgar T. Shepherd

Educated at Cardiff High School, Mr Shepherd was articled in 1933 to Sir Harold Barton, F.C.A., a Past President of the Institute, and was admitted an Associate of the Institute in 1939. After six years' service in the Royal Air Force as a navigator in Coastal Command, he was transferred to Reserve early in 1946 with the rank of Flight Lieutenant. He then joined his present firm, was elected to fellowship of the Institute in 1951, and to the District Society Committee in 1954. He also served on the Committee of the local Students' Society from 1946 to 1950.

Mr Shepherd is a director of several companies, a past Chairman of Cardiff Round Table, a past President of The Cardiff Institute for the Blind and, amongst other interests, is honorary treasurer of The Cardiff Naturalists' Society and a member of the Finance Committee of the National Museum of Wales.

Other officers elected for 1961-62 are:

Vice-President and Hon. Treasurer: Mr Harold E. Halliday, F.C.A.

Librarians: Mr T. W. Pickard, F.C.A., and Mr D. E. Davies, F.C.A.

Annual Report

The report of the Committee for the year 1960-61 records membership of the Society at December 31st, 1960, of 440 - a small increase over the year.

A 'Brains Trust' was held in Cardiff in March of this year and was well attended, but there was disappointing support at four lecture meetings held in Swansea. However, despite this lack of support, it is hoped to provide lecture programmes in the coming year and it is likely that at least one lecture will be arranged with the students' societies. The Committee requests members to make a point of attending at least one lecture during the coming session.

Two meetings of the Golfing Society were held during the year and a record number of 243 members

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

and guests attended the Society's annual dinner in Cardiff.

The Cardiff luncheon club was formed last November with the object of enabling members to meet regularly at luncheon and to discuss matters of mutual interest. Since its formation, luncheons have been held at *The Park Hotel*, Cardiff, on the second Thursday of each month, under the chairmanship of Mr C. R. Daniel, F.C.A. The average attendance of seventy is an indication that members enjoy and value the opportunities provided by the club.

NATIONAL ASSOCIATION OF INVESTMENT CLUBS

Mr John Goudge has been appointed full-time executive director of the National Association of Investment Clubs. Mr Goudge, formerly with the Bank of England, and himself an investment club member, takes over the administrative responsibility of servicing 410 affiliated clubs. The movement has made rapid progress in its three years' existence and new clubs are being formed each week. The Association's address is 40-41 St Andrew's Hill, London, EC4.

THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

Results of Examinations held in May 1961

*Places and Prizes will be awarded
on the combined results of the May and November 1961 Examinations.*

FINAL EXAMINATION

PART A

(in alphabetical order)

Adams, D. H., Dorking U.D.C.

Bentley, F., Ministry of Housing and
Local Government.

Bicknell, R. A., Richmond (Surrey) B.

Bisshopp, G. W. A., Bexley B.

Booth, M. A., East Midlands Electricity
Board.

Boothman, R. D., Eccles B.

Bray, B. E., Plymouth C.B.

*Broadfoot, J., Edinburgh.

Burgess, B. F., Wolverhampton C.B.

*Campbell, H., Morley B.

Carruthers, A. G., Essex C.C.

Clark, J. R., Barnoldswick U.D.C.

Clarke, R. I., Nottingham C.B.

Clowry, T. C., London Corporation.

Collins, B. E., Buckinghamshire C.C.

Comer, H. J., Romford B.

*Conquest, B. R., Long Eaton U.D.C.

Cotterill, P., Doncaster R.D.C.

*Coulthard, F. H., Houghton-le-Spring,
U.D.C.

Cox, J. W., Hertfordshire C.C.

Coysh, R. J., Bognor Regis U.D.C.

Curtis, A. F., Plymouth C.B.

Davey, W. A., Sheffield C.B.

Davis, C. A., Bristol C.B.

Duroe, W., Chesterfield B.

*Edon, D. W., Morecambe & Heysham B.

Elborn, J. W., Hemel Hempstead B.

Etheridge, D. A., Smethwick B.

*Faithfull, D. H., Eastleigh B.

Farrar, B., Smethwick B.

Ferguson, D. R., Glasgow.

*Fernley, W. J. R., Leyland U.D.C.

*Fox, B. J., Yeovil B.

Freshney, B. A., Hendon B.

Frost, B. W., Wimbledon B.

Frowd, B., Eastbourne B.

Furmage, B. M., Dorset C.C.

Galvin, R. C., Edmonton B.

Gawley, L. J., London C.C.

Gidman, P. G., Portsmouth C.B.

Gomme, K. T., Watford B.

Goode, F. D., Ilford B.

Graham, D., Swindon B.

*Greatorex, C. F., Derbyshire C.C.

*Grimshaw, E., Solihull B.

Hammonds, E. E. H., West Bromwich C.B.

Hanson, G., Leamington Spa R.B.

*Hanson, J., Coventry C.B.

Harrison, W. F. D., Cardiff C.B.

*Hay, B. W., Wembley B.

Hayward, I. G., Welsh R.H.B.

Heald, G. C., Buckinghamshire C.C.

*Hemsley, P. R., Derbyshire C.C.

Hodgson, P., Durham C.B.

Holt, K., Ministry of Housing and Local
Government.

Horner, E. J., Newport (Mon.) C.B.

Hudson, J. R., Tottenham B.

Humphries, R. J., Paddington B.

Hutchinson, J., Chislehurst and Sidcup
U.D.C.

Izzard, R., Hertfordshire C.C.

Jones, R., Woking U.D.C.

*Jones, R., Berkshire C.C.

Jones, W. G., Hambledon R.D.C.

King, D. C., Hampshire C.C.

King, R. S., Scarborough B.

Latter, L. W., London C.C.

Lebeter, C. W., Derbyshire C.C.

*Love, S. F., Corby U.D.C.

*Luckhurst, J. B. S., Bishop's Stortford
U.D.C.

McLachlan, J., Ministry of Housing and
Local Government.

McPherson, R. A., Mitcham B.

Meredith, S. V., Ndola.

Meredith, W. G., Thames Conservancy.

Miller, R. T. A., Staffordshire C.C.

Milner, B., Hemsworth R.D.C.

Murphy, B., Rotherham C.B.

Newstead, J., Tottenham B.

Norman, R. W., Cheshunt U.D.C.

Ogden, D. L., Coventry C.B.

Orritt, J., Walsall C.B.

Payne, H. J., North Cotswold R.D.C.

Peart, G. A., New Forest R.D.C.

*Perrins, N. R., Bradford C.B.

Potts, H. E., Cumberland C.C.

Rainbird, R. N., London C.C.

Ralph, P. M., Epsom and Ewell B.

Ray, E. C., Coventry C.B.

Rippington, T., Swindon and District
H.M.C.

Roberts, A. J., Cornwall C.C.

Robinson, J. B., Hampshire C.C.

Robinson, W. G., Lancashire C.C.

Ronaldson, R. A. D., Middleton B.

Royce, J. C., Leeds C.B.

Seager, E. V. J., Southampton C.B.

Sketchley, D. A., Blaby R.D.C.

Smith, B. M., Leicester C.B.

Smith, D. R., Ministry of Housing and
Local Government.

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Smith, T. K., Staffordshire C.C.
Spence, G. E., Pudsey B.
Stafford, M. B., Derbyshire C.C.
Stinchcombe, L. W., Haslemere U.D.C.
Streeter, F. E. A., Basildon U.D.C.
Sumpter, A. H., London C.C.

Thomas, N., Winchester B.
Thompson, J. T., Staines U.D.C.
Thompson, K., Smethwick C.B.
*Timperley, C. P., Derbyshire C.C.
Tomlinson, J. L., Hammersmith B.

*Tout, G. J., Bridgwater B.
Tunstall, F. T., Doncaster R.D.C.
Turner, E., Manchester C.B.

Upward, A., National Coal Board.

Wadham, F. W., Ministry of Housing and Local Government.

Waite, F. S. G., Bury St Edmunds B.
*Walton, C. H., Solihull B.
*Ward, B. C., Derbyshire C.C.
Ward, W., Kearsley U.D.C.

Watts, E., Wandsworth B.
Whitaker, D. B., Burton-on-Trent B.
*White, N., Yorkshire (West Riding) C.C.
Whitehead, G., Rochdale C.B.
*Williams, G. A. H., Derbyshire C.C.
Williams, K. R., Staffordshire C.C.
Williams, P. J., Cornwall C.C.
*Williams, T., Rochdale C.B.
Williamson, B., Staffordshire C.C.
*Wilman, A. N., Congleton R.D.C.
*Wood, R. H., Hertfordshire C.C.
Wright, P., Haltemprice U.D.C.

* Passed Part B (or Part 1) at a previous examination.

PART B

Adams, K., Derbyshire C.C.
*Aldridge, S., Bedfordshire C.C.
*Andrew, H., Northwich R.D.C.
*Aston, P. G., Wolverhampton C.B.
*Austin, G. A., Wallasey B.
Bailey, D., Burnley C.B.
*Ball, D. G., London C.C.
*Banks, N., Castleford B.
*Barnes, F. W., South Eastern Electricity Board.
*Baugh, B. A., Mansfield C.B.
*Beerling, D., Kent C.C.
*Bell, W. R., London C.C.
*Berry, J. F., Esher U.D.C.
*Bircher, S., Shrewsbury B.
*Bristow, J. W. P., Bristol C.B.
Brooks, H. T., Manchester C.B.
*Brown, D. F. E., Hemel Hempstead B.
Capps, W. J., Warwickshire C.C.
*Carswell, C. G., Ministry of Housing and Local Government.
*Chisholm, J., East Ham B.
*Clark, F. H., Skipton U.D.C.
*Clark, J. V., Northumberland C.C.
*Clucas, B., Liverpool.
*Commander, M. J., Buckinghamshire C.C.
*Courtney-Holt, D. G. C., Plymouth C.B.
*Crook, R. F. A., Bristol C.B.
Culverhouse, V. J., Bedford B.
*Dickinson, J. J., Bury B.
*Duckett, I. R. J., Chippenham B.
*Dunkley, W. J., Oxford B.
*Eke, J. F., Eastbourne B.
*Elms, G. F., Roundway H.M.C.
*Evison, J., Lincolnshire C.C.
*Ewart, S. E., Liverpool C.B.
*Fagg, A. M., Stamford B.
Fielder, G. B., Sussex C.C.
*Fielding, F., Accrington C.B.

*Foster, J. R., Newcastle upon Tyne C.B.
*Frith, E., Ashton under Lyne B.
*Gibbs, W. M., Swansea.
*Giddens, J. D., Ministry of Housing and Local Government.
Gilbert, R. H., Derbyshire C.C.
*Goodfield, M. H., Neath B.
Goodyear, W., Birmingham C.B.
*Granger, K. W., Lexden and Winstree R.D.C.
*Gray, J. F., Isle of Wight.
*Greenwood, R., Leyland U.D.C.
*Guy, W. A. F., Greenock.
Hancock, C. D., Wiltshire C.C.
*Hancock, G. G. A., Newcastle-under-Lyme B.
Hesketh, J. L., Leicester C.B.
Hicks, A. M., Wimbledon B.
*Hoskins, C. W. W., London C.C.
*Humber, A. J., Ministry of Housing and Local Government.
*Hunt, J. P., Coventry C.B.
*Hyett, F. G., Glamorgan C.B.
*Jenkins, P. W., Chester B.
*Jones, D. C., Kingswood U.D.C.
*Kaye, I. N., Coventry C.B.
*Kirkland, D. W., Staffordshire C.C.
*Kitteringham, D. A. P., Cheshunt U.D.C.
*Lacey, P. H., Leicestershire C.C.
*Lomas, K. W., Coventry C.B.
*Matthew, J., Leamington Spa R.B.
*Miller, D., Willesden B.
*Montgomery, W., Airdrie.
Morton, R. F. H., Hertfordshire C.C.
*O'Keefe, J. F., Birkenhead C.B.
*Pearson, D., Ministry of Housing and Local Government.

* Passed Part A at a previous examination.

*Phillips, R. D., Ruislip-Northwood U.D.C.
*Price, G. U., Birmingham C.B.
*Rawcliffe, F., Huyton-with-Roby U.D.C..
*Rose, K. E., Buckinghamshire C.C.
*Rudman, E. C., Manchester C.B.
*Samuel, D. H., Aberdare U.D.C.
*Scott, N., Lancaster C.B.
*Sharp, J., Scarborough B.
*Sharpe, A. E., Harrow B.
Smith, C., Coventry C.B.
*Smith, L. V., Nairobi.
*Smith, R. S. H., Salop C.C.
*Southern, G. T., Newcastle upon Tyne C.B.
*Speight, S. R., Leicester C.B.
*Spicer, M. J., Twickenham B.
*Squire, A., Ealing B.
*Starling, E. G. B., Essex C.C.
*Thomas, D. J., Bath B.
*Thomas, J. D., Swansea C.B.
*Threlfall, I. P., Leyton B.
*Tomsett, J. N., Wivelsley and West Drayton U.D.C.
*Trenowden, J. H., Coulsdon and Purley U.D.C.
*Turnbull, K. J., Yorkshire C.C. (East Riding).
Ward, G. W., Nottinghamshire C.C.
*Weatherly, D., Leatherhead B.
*White, J. F., Nottingham C.B.
*Whittle, T. G., Mid and South East Cheshire Water Board.
*Willgoss, K., Bournemouth B.
*Williams, D. C., Merthyr Tydfil C.B.
*Winters, P. G., Bradford C.B.
*Witherow, D. W., Huntingdonshire C.C.
*Wolstenholme, R., Stretford B.
*Wright, R. B., Esher U.D.C.
*Young, J. N., Stirling.

Summary of Results

	Intermediate		Final Part A		Final Part B		Total	
	No.	per cent	No.	per cent	No.	per cent	No.	per cent
Passed	143	36	129	39	103	42	375	39
Failed	254	64	198	61	141	58	593	61
	397		327		244		968	

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THE ACCOUNTANT

ESTABLISHED 1874

JULY 29TH, 1961



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The Finance Act, 1961

THIS year the annual Finance Act received the Royal Assent a fortnight earlier than usual. Normally the Act reaches the statute book at the end of July, at the time when Parliament rises. This year the process had to be speeded up because the Act is perhaps unique in providing for what is in effect a Budget within a Budget. Section 9 and Section 30 give to the Treasury, i.e. to THE CHANCELLOR OF THE EXCHEQUER, very wide powers of discretionary taxation. These are not primarily for the raising of money as such, but 'with a view to regulating the balance between demand and resources in the United Kingdom'. The Third Schedule provides that the powers may be exercised by statutory instrument which has to be laid before the House of Commons after being made. The Order will cease to have effect at the expiration of twenty-one days from its making unless it has by then been approved by an affirmative resolution of the House. It follows that if the order is to survive for more than twenty-one days, it must be made at a time which gives the Commons the opportunity of debating it. Now as there is some urgency in the matter of exercising the powers, the Finance Bill had to be passed some time before the coming vacation. Section 9 deals with purchase tax and other excise duties and gives power to increase them by not more than 10 per cent; the powers expire on August 31st, 1962, unless Parliament extends them. Section 30 provides for a 'surcharge' on employers of a maximum of four shillings a week for each employee, the surcharge to be collected in the same way as National Insurance contributions. Orders under Section 30 may be made at any time up to March 31st, 1962, and cannot remain in operation after August 5th, 1962, or such earlier date as may be prescribed.

We review on other pages the orders which the Treasury made on Tuesday under Section 9. The Section 30 powers have not yet been exercised.

Like nearly all Finance Acts, the present one grew in size as it passed through the various stages. It began with thirty-three clauses which have increased to thirty-seven - still a modest size for modern Finance Acts. Section 1 is perhaps remarkable in the fact that it imposes an entirely new excise tax which would have been unthinkable not very many years ago: a ten per cent tax on payments made for the insertion of an advertisement in a television programme broadcast from a station in Great Britain. This tax, known as 'television advertisement duty', is now retrospectively imposed from the end of last April. The duty cannot be avoided

by paying for advertisements by the transfer of something other than cash, for 'payment' is defined as including any valuable consideration. The duty is charged in the first instance on the person providing the programme but he is given the right to recover it from the person who is liable to pay for the advertisement, unless the person providing the programme (the 'broadcaster') has agreed not to recover the duty. If the advertisement is inserted under an arrangement between the programme contractor and an advertising agent, the 'payment' is deemed to include any amount allowed to the agent by way of commission or discount, by reason of the arrangement.

The machinery for collecting the duty is set out in the First Schedule to the Act. The duty on all the advertisements inserted by the broadcaster in a particular month is payable by the 25th day of the following month, within which time the broadcaster has to make a return to the local customs and excise office. The months of May and June of this year are for this purpose amalgamated with July, so that the first payment will be due on August 25th, and will cover three months. Where the broadcaster is entitled to an omnibus payment for several insertions in different months the payment is to be apportioned 'in such manner as the Commissioners may direct' so as to arrive at the amount referable to a particular insertion.

If the broadcaster fails to make a return, or the return 'appears' to the Commissioners to be incomplete or inaccurate then 'the Commissioners may estimate the amount of duty payable, and the amount estimated shall be treated as payable, unless the contrary is proved'. Thus is the arrangement familiar in income tax applied to the new duty; the officials can make such assessment as they please and the unfortunate taxpayer has to prove it is wrong. It is interesting that in the same week when the Act received the Royal Assent, a provision like this in a statutory instrument was the subject of severe judicial criticism; the case is referred to under 'Weekly Notes'.

Paragraph three of the Schedule contains some fairly stringent terms which go much further than any corresponding income tax provisions. The broadcaster must notify the Commissioners of the address of all premises for the time being used by him for the purposes of his television

advertisement business. He must keep all the books, records and accounts that the Commissioners direct him to keep, and must obtain their permission before disposing of these books etc. within the time fixed by the Commissioners for their preservation. Moreover he must permit any officer of Customs and Excise to inspect and take copies or extracts of books, records, accounts and other documents in his possession or power which relate to the business or appear to do so. Apart from the broadcaster himself (who is unlikely to be anything but a company) the Commissioners may require any employee to give such information about the business as they may require, and in particular to produce at a specified time and place, books etc. relating to the business. The duty has to be shown in all bills for television advertisements. Paragraph 4 imposes penalties for failure to comply with these requirements.

We have dealt in previous articles with many of the other provisions of the Act, in particular the income tax and surtax provisions. Section 20 gives tardy relief to ministers of religion which is likely to be of particular advantage to beneficed clergymen of the Church of England who are perhaps the Cinderella of British income tax. Subsection (1) is directed to relieving the clergyman of Schedule A tax on his official residence, presumably to put the Church of England clergyman in the same position as, for instance, a Methodist minister. Section 448 (1) (a) of the Income Tax Act, 1952, confers exemption from Schedule A tax on property 'owned and occupied' by a charity. This relief is extended to 'premises' in which any charity or ecclesiastical corporation owns an 'interest' and which (in right of the 'interest')

- (a) the persons from time to time holding a full-time office as minister of religion; or
- (b) any particular person holding such an office, have a residence from which to perform the duties.

The same applies where accommodation is being held there to provide for such a residence. It is to be observed that the charity need not own the premises, but even under Section 448 (1) (a) it is in practice sufficient if the charity was in beneficial occupation.

For the purpose of excess rent assessments in the case of short leases (Sections 175 and 176), premises exempted by the new section are to be

treated as though they were assessed to Schedule A but at a *nil* amount. Maintenance relief against an excess rent assessment is to be computed on the premises comprised in the lease giving rise to the rent.

The minister is not to pay tax on statutory amounts and deductions in respect of the accom-

modation where those amounts or deductions are made good to him in view of his office – except in relation to any part of the premises for which he receives rent; nor is he to pay tax on the value of any expenses paid for in consequence of his office and in connection with the provision of the living accommodation.

Crisis Measures

ARISE from 5 to 7 per cent in the Bank rate is perhaps the keynote of MR SELWYN LLOYD's measures to meet the current crisis. It is certainly calculated to inhibit the readiness of individuals and businesses to finance purchases by means of an overdraft. But at the same time the Bank of England have called upon the clearing banks for further special deposits. In the case of the London clearing banks the call is for 1 per cent, of which half is to be deposited by August 16th and the balance by September 20th next. In the case of the Scottish banks the call is for a percentage equal to one-half of that called for from the London clearing banks. The obvious effect of this is to reduce the desire and the ability of banks to comply with demands for the creation, increase or continuance of overdrafts. Of course, some overdrafts are wholly admirable; no one would wish to inhibit bank overdrafts where these were likely to facilitate the increase of exports or the development of productive industry. THE GOVERNOR OF THE BANK OF ENGLAND has made it clear that the impact of the new measures should fall on advances, and the banks have been asked to be particularly severe on proposals related to personal consumption, including finance for hire-purchase, as well as finance for speculative building, property development or for other speculative purposes, so that all possible room should be left for the finance vitally needed for exports or productive industry.

Of course, the clearing banks are not the only institutions from which credit may be obtained. THE GOVERNOR OF THE BANK OF ENGLAND is also drawing the attention of the United Kingdom banks, including the foreign and overseas banks and the accepting houses, to the action taken with the clearing and Scottish banks. The insurance

companies were also being requested to observe a similar policy in their lending. When the Financial Secretary to the Treasury, SIR EDWARD BOYLE, was asked at a Press conference held at the Treasury on Tuesday precisely what this meant, he mentioned specifically the part played by insurance companies in the financing of the building of blocks of offices. It is a matter for speculation how far the new crisis measures are expected, or intended, to affect borrowing of a humbler sort, for instance borrowing by an individual policy-holder on the security of the surrender value of his policy.

THE CHANCELLOR said it was not his intention to force a down-turn of private investment in productive industry. He was not proposing any change in the initial or investment allowances. One might well retort that the time to withdraw or reduce the initial or investment allowances was the time of the Budget; the powers given to the CHANCELLOR by this year's Finance Act did not extend to the suspension of income tax capital allowances. At the Press conference referred to above, SIR EDWARD laid great stress on the fact that investment allowances had been left undisturbed, notwithstanding the fact that in the previous crises they had been either reduced or suspended.

However, there was a somewhat sinister note in the CHANCELLOR's observation that he did not rule out further measures. On the other hand, MR LLOYD said that the Government did not intend to alter the present hire-purchase restrictions. It would also seem, from the way in which SIR EDWARD BOYLE reacted at the Press conference last Tuesday, that it was not intended to reintroduce borrowing control on the scale obtaining before the recent relaxations. These assurances sound somewhat strange at a time when the

Government is stressing its determination to restrain borrowing for personal consumption or for property development. It is clear that the rise in Bank rate and the action against overdrafts will inhibit not only borrowing for speculation and personal consumption, but also borrowing for the purposes of acquiring houses for owner occupation, which is usually regarded as borrowing of the more laudable kind. But the Government does not stop there. The house purchase scheme under the 1959 Act, announced with such pride, which is now costing £40 million, is being suspended.

SIR EDWARD BOYLE made the point at his Press conference that the cutting down of expenditure on housing generally was likely, paradoxically enough, to increase the number of housing completions in the short term. It would reduce the number of commencements of house building, but this was not a bad thing on the short-term view, since an uncompleted house was of use neither to man nor beast.

It is not only private citizens who are extravagant; central and local authorities have a purchasing power which is not always used wisely. MR LLOYD said he would have to 'look critically' at the level of agricultural support during the 1962 review. In the services provided by central and local government he would have to ask for 'desirable proposals' to be postponed or abandoned; presumably because the word 'desirable' must be read in a specially restricted sense.

As was rather expected, one casualty of the new parsimony is the suggested increase in the remuneration of teachers. The Government has decided that it cannot agree to the size of the increase in salaries for teachers in primary and secondary schools as proposed in the Burnham Committee's provisional agreement, and on Wednesday THE MINISTER OF EDUCATION asked the Committee to make some reductions. At the same time he gave his views as to how the revised expenditure might best be distributed in order to meet the needs of the education service.

The Government does not wish to restrict expenditure by the nationalized industries for the purpose of attaining their financial targets or providing essential supplies and services. The sums required for industry, notably the steel industry, will fall away in 1962 and the Government will apply very strict criteria, whatever that means, to

any new proposals. The emphasis is not so much on cutting expenditure to which the Government and other bodies are already committed, but to the containing of further increases.

Government expenditure on defence and overseas administration is to be revised. On the latter MR LLOYD hopes for a 10 per cent saving. Defence expenditure is of course a more complicated matter in view of our treaty obligations. Private capital investment in the non-sterling area will be subjected to a more severe test than applies at present. There will have to be evidence that the proposed expenditure will produce clear and commensurate benefits to United Kingdom export earnings and to the balance of payments. Steps will also be taken to encourage the remittance to the United Kingdom of profits earned abroad.

The new thinking in the Government is that monetary measures and fiscal measures should be taken at the same time. The excise tax regulator enables the CHANCELLOR to draw off purchasing power without having to introduce a 'pots and pans Budget' like MR BUTLER's of 1955 – a Budget which irritated without producing much revenue. The 10 per cent maximum imposed by Section 9 of the new Act has become at once the minimum, applied in its full rigour to produce more than £200 million in a full year, although of course everyone hopes there will be a reduction long before then. Fourpence on a packet of cigarettes, threepence on a gallon of petrol, and corresponding increases practically everywhere will certainly be a powerful aid to the monetary measures.

MR LLOYD dealt in his speech with the question of taxing capital gains. Such a move could not be part of the immediate measures to increase taxation because it would involve a great deal of preparation. The topic arose in the context of wage restraint. The Government reject again the idea of a capital gains tax on the United States or similar models. However, as hinted in the Budget speech this year, measures are to be introduced next year to bring into the tax net the activities of those who seek short-term profits which are more in the nature of speculation than investment. MR LLOYD gave the instance of transactions on the Stock Exchange. He spoke also of activities which are in effect trading – often in real estate – 'but cloaked in such form as to escape liability under the present law'.

Curbing Government Spending

GOVERNMENT expenditure, like Topsy, just grows and since 1945 it has increased at a remarkable rate, so much so that the previous Conservative administration sought to meet the growing body of public criticism by the appointment of a small internal committee headed by LORD PLOWDEN to examine the theory and practice of control of Government expenditure.

This was a confidential and secret inquiry, the committee having full access to Cabinet papers. A number of reports have already been made to the Cabinet but a short final report indicating the main lines of the committee's thinking was published last week.¹ Three main aspects of any system of controlling Government expenditure are emphasized. In the first instance, to quote the now hackneyed ministerial defence of departmental spending – expenditure depends on policy. But when, as the report notes, that policy is merely the outcome of a series of piecemeal decisions it is hardly surprising that more may be spent in the aggregate by departments than the economy can reasonably afford. Furthermore, with such massive expenditure it is hardly surprising that insufficient attention may sometimes be paid to particular items in the annual estimates. To meet this weakness, the Plowden Committee proposes that regular surveys be made of public expenditure as a whole. This should enable plans to be better co-ordinated in relation to available resources. Also, it may help to avoid periodic amendments to long-term plans which, when made in haste and often as *ad hoc* expedients, merely lead to waste and higher costs.

The old quip that Civil Servants, like the fountains in Trafalgar Square, play from ten till four, still contains a germ of truth as far as some critics of Government administration are concerned. For its second policy recommendation the report stresses the increasing value within the major departments of modern management techniques, in particular costing, accountancy, organization and methods, and even operational research. The committee concludes that administrative and organizational standards in the national departments are comparable with their equiva-

lents outside the public sector, although it concedes that the same cannot always be said of some of the smaller offices. The major departments are urged to consider what can be done to help local authorities and regional hospital boards in the provision of management services to develop work study, costing and O. and M. throughout their services.

As part of its third recommendation – the provision of information and accounts upon which intelligent discussion of Government expenditure can be based – the report welcomes the additional White Papers on public investment and the analysis of 'below-the-line' budgetary outlays. Commenting that the published form of Government accounts and estimates 'do not facilitate the creation of an informed public opinion' about these matters, the report welcomes the recent Treasury review of the layout of the Estimates and Appropriation Accounts as well as the promise of improvement.² The committee reiterates the conclusions of the Crick Committee that the existing system of cash accounting is the most appropriate for Parliamentary control, but to some critics this would be more convincing if stress had not been laid on the 'formidable legislative and administrative task' that any change would involve.

The committee modestly disclaims that its various recommendations would have an immediate substantial effect, but it is satisfied that the results of its policy proposals could be material in the long run. However, in view of the emphasis laid upon the provision of information to facilitate academic and public discussion of Government spending policies, it is a little surprising to find that the long-term surveys advocated as the key-stone of the Plowden recommendations should not be published, since this would involve

'disclosing the Government's long-term intentions for a wide range of public expenditure as well as its assumptions regarding employment, prices, wages and all the other elements in the economy'.

No doubt, as the committee states, 'it would be surprising if any Government were prepared to do this', but without it, how much better off are we than before?

¹ *Control of Public Expenditure*. Cmd. 1432. H.M.S.O. 1s. 9d. net.

² As discussed in the Third Report of the Committee on Estimates. Session 1960-61.

Can We Afford Not to Use Marginal Costing?

by KENNETH S. MOST, LL.B., F.C.A.

IN spite of everything written and said in favour of marginal costing during the last twenty years, neither cost accountants nor financial accountants have yet accepted its consequences for period profit statements. None of the textbooks upon which examinations are based has done more than devote a brief chapter to its principles, and the great majority of accountants have set their faces firmly against it. Those business men who have found marginal costing congenial to their planning processes, are shocked when they are forced to examine the nature of cost accounting at the present time.¹

The cost accountant's objection to marginal costing is based upon his desire to retain contact with the past, for the change-over from full costing substantially reduces the scope of both period and product comparisons. However, this has not stood in the way of the growth of standard costing, which has a similar radical effect on such comparisons. Resistance to the marginal approach is more deeply rooted than this.

Let us recapitulate the arguments for and against. Advocates of the method say that it enables the cost accounts to become a basis for management decisions and the exercise of the faculty of choice, instead of a mere record of past activities. Marginal cost accounts provide a model of the business in action, a dynamic presentation which corresponds to the realities of the business situation. From this model the probable effect on the future of an action taken at any given time can be forecast with reasonable accuracy. Further, and in another context, the separation of fixed or 'capacity' costs from variable or 'activity' costs facilitates budgeting, control and profit measurement.

These arguments meet with opposition from economists, financiers and accountants. Economists, who developed an analogous theory in the macro-economic field, complain that it is too crude an approximation, because variable costs do not always vary in proportion to activity

level, nor do fixed costs stay fixed throughout the range of activity which constitutes theoretical capacity. Financiers object that the 'true' cost of products includes a proration of fixed costs, so that, for example, the marginal cost method cannot be used for the valuation of stocks. Accountants find it unsympathetic because it presents a frontal attack upon their traditional techniques, particularly for the manufacturing business, but also as adapted to retailing and wholesaling.

Attempts to Compromise

Characteristically, we try to compromise, and textbook writers present us with a viewpoint which it is tempting to accept. This is, for example, the attitude of John A. Beckett who said in an article² entitled 'The art and science of distribution costing':

'The allocation-proration or full-cost technique has the advantage of being helpful where the direct cost technique is weak, that is, at the extremes of the spectrum where the units are specific and the direct costs are few. Furthermore, the technique is realistic in that it assesses to units their fair share of indirect costs so that when they are all compared, one against the other, to determine the relative worth of each, the bases of judging may be mature and complete bases which have a real meaning in the long run.'

He then turns to the defects of full costing:

'The strength of the full cost method (of distribution cost analysis) is, in turn, a weakness, for it is strength built upon practical expediency. It is a trading upon the law of averages.'

More recently, Mr D. R. C. Halford (op. cit.) has attacked the marginal costing approach and attempted to substitute a new concept called 'differential costing'. After 'proving' that marginal costs must be used for economic studies, and that full costs cannot be, he proceeds to demonstrate the limitations of marginal costing where a change in the type of activity takes place, and concludes that, in such circumstances,

¹ *Differential Costs and Management Decisions*, by D. R. C. Halford, O.B.E., Pitman, London 1959, Ch. I.

² *National Association of Cost Accountants' Bulletin*, April 1951.

'differential costs' are inescapable. This argument arises only because Mr Halford has left out of his analysis the vital concept of the 'bottleneck' and its effect upon cost behaviour. If this element is added to his analysis, 'marginal' and 'differential' costing are seen to be one and the same.

Nature of Marginal Costing

Marginal costing is based upon three fundamental principles:

- (1) the necessity to separate structure costs from activity costs;
- (2) the concept of the contribution margin;
- (3) the necessity to determine bottlenecks within the structure.

The separation of structure costs from activity costs is done by classifying costs according to their behaviour, into 'fixed' and 'variable'. Fixed costs are a function of organizational structure and not of activity. Such costs as are occasioned by the occupation of land and buildings, investment in machinery and other equipment, the size of the selling and distribution organization, of the overall administration, and of research and development work, are fixed, in that they vary little – if at all – within the range of activities which constitutes capacity. Such costs are usually the consequences of decisions taken outside the short-term budget period, frequently many years before the date when the period's activity is due to commence.

Direct, or product, costs, on the other hand, are variable costs and result from the activity which is undertaken during the budget period, the volume which is made or sold. By definition, any cost which does not vary more or less proportionally with variations in the activity level is not a direct or product cost.

This analysis provides us with a crude but workable model. If business increases, whether on the manufacturing or sales side, direct or product costs will increase proportionally; whereas structure costs will remain the same. If business decreases, direct or product costs will decrease proportionally, and structure costs remain the same.

The contribution margin is the difference between selling price and direct or product costs. Therefore, where selling price is a constant, total contribution is proportional to the volume sold; where selling price is reduced, the percentage of contribution to selling price is reduced by the percentage reduction in selling price, and vice versa.

Finally, the bottleneck is the limiting factor governing the structure of the business as represented by its fixed costs. This limiting factor varies at different times in relation to the prevailing situation, and is responsible for what appears at first sight to be a third variety of cost, the 'stepped' or semi-fixed cost, which remains fixed throughout a part of the activity, rising sharply and suddenly to a new, higher, level when activity increases beyond a certain point. In doing so, however, it merely establishes the fixed costs at a higher level. In a manufacturing business, such a bottleneck might be the warehouse which cannot store all finished goods at 100 per cent of capacity, or the finishing department which, although adequate for certain products, cannot handle a high activity level when a product requiring special finish predominates. In a retail business the bottleneck might be counter space, or floor area.

An Example

Let us examine the practical use of this theory by means of a hypothetical example, involving a simplification which in no way detracts from the validity of the exercise. A business manufactures two products, A and B, which are similar except that the raw materials and finish of B are of a slightly higher quality. A full standard costing system is in use, and the following budget for next year is prepared on this basis, in consideration of sales and production estimates.

	Total	A	B
	£	£	£
Sales	280	200	80
Cost of Sales			
Direct materials and labour	212	160	52
Indirect costs	35	23	12
Selling and distribution costs	30	21	9
	<u>277</u>	<u>204</u>	<u>73</u>
Net profit (loss)	<u>£3</u>	<u>£4</u>	<u>£7</u>

An analysis of product prices produces the following figures:

	Total	A	B
	%	%	%
Direct materials and labour	76	80	65
Indirect costs	12	11	15
Selling and distribution costs	11	11	11
	<u>99</u>	<u>102</u>	<u>91</u>
Total costs			
Margins	1	2	9
	<u>100</u>	<u>100</u>	<u>100</u>
Selling prices			

This tells us that product A is costing too much to make and sell, resulting in a loss of 2 per cent on each £1 of sales. Product B is producing a profit of 9 per cent on each £1 of sales; the overall effect is a total net profit of 1 per cent per £1 of sales. If this situation is unsatisfactory, what shall be done to improve it?

This is the diagnosis, and we then proceed to consider the cure. We have based our budget on standards, so that the possibility of substantial cost reduction without re-designing the products is out of the question at this stage. If a slight cost reduction will help, where shall we begin? The analysis of both indirect factory and selling and distribution costs will help, but this will not have much relevance to the product costs of either A or B, only to the cost of capacity.

Profits depend upon sales, we are told, so that the first point of attack is to increase sales. What is the probable effect of selling more of A? Will a 10 per cent increase merely serve to depress profits still further, as the figures suggest? Suppose that a 20 per cent increase can be achieved through a 5 per cent price reduction – will this only aggravate the situation?

Perhaps the figures indicate that we should sell more of B. What are the consequences of a 50 per cent increase in production and sale of B, with and without a corresponding reduction in the output of A? If we can double the sales of B by reducing the selling price 10 per cent, what effect will this have on our profit, with and without changes in the output of A? Should we produce as many of B as we can, and sell them for what the market will stand?

To all of our questions, the budget remains silent. It is dumb because it was never given the power of speech.

Marginal Cost Approach

Let us now examine a re-drafted budget, prepared on marginal costing principles. Under this system there are four categories of cost to be considered:

- (A) Variable more or less proportionally with output or sales.
- (B) Semi-fixed (stepped).
- (C) Fixed.
- (D) Depreciation.

A standard cost per unit can be developed for (A), although this is not an essential ingredient of marginal costing. The allotment of (B), (C) and (D) to cost centres may be made in order to provide supplementary analysis of these cost types, but no apportionment will normally be undertaken.

Variable costs produce flexible budgets, the other costs, fixed budgets. We therefore possess a whole spectrum of costs:

- (a) Full costs A+B+C+D.
- (b) Marginal cost within the bottleneck A+B.
- (c) Marginal cost outside the bottleneck A+B+D (Halford's 'differential cost').
- (d) Immediate marginal cost A.

The re-drafted budget will appear as follows:

	Total	A	B
	£	£	£
Sales	280	200	80
Direct (product) costs			
Manufacturing variable costs	186	140	46
Selling variable costs ..	26	20	6
	<u>212</u>	<u>160</u>	<u>52</u>
Contribution margin ..	68	£40	£28
Fixed costs	65		
Net profit	<u>£3</u>		

If we now analyse product prices we obtain the following picture:

	Total	A	B
	%	%	%
Costs	76	80	65
Margins	<u>24</u>	<u>20</u>	<u>35</u>
Prices	<u>100</u>	<u>100</u>	<u>100</u>

This is the point at which our budget can begin to make a useful contribution to the management function. It tells us, not that we are losing money on A, but that we have a smaller margin on A than on B, so that a considerably larger turnover is required in order to put both products on the same footing. Turnover of A is $2\frac{1}{2}$ times that of B, which more than compensates for the smaller margin.

We can now answer other questions, among them those which our full cost budget was helpless to resolve:

- (i) If we increase sales of A by 10 per cent we will probably increase profit by 4 (20×20 per cent).
- (ii) If we reduce the price of A by 5 per cent, the margin will become 15 per cent. Thus, a constant sales volume will reduce profit by 10, i.e. result in a loss of 7. A 20 per cent increase in sales at the new price can be calculated as:

$$\text{old volume} \times \frac{95}{100} \times \frac{120}{100} = 228. \text{ The contribution margin on this will be 36, and a loss of 1 will result.}$$

(iii) If we can increase sales of B by 50 per cent we can increase the profit by 14 (40×35 per cent), less any increase in semi-fixed costs or depreciation which the higher output would necessitate.

(iv) If we increase sales of B by 50 per cent and reduce sales of A by, say, one-fourth, so as not to incur additional semi-fixed or depreciation costs, we should find that:

additional contribution margin, B = 14

reduced contribution margin, A = 10

increase in net profit 4

An increase of 10 per cent in sales of A will thus produce the same result as a 50 per cent increase in sales of B coupled with a 25 per cent decrease in sales of A. If the increase in B could be achieved with only a 20 per cent reduction in A, then net profit would be 6 higher.

(v) To lower the selling price of B by 10 per cent and to double its sales would result in a net profit increase of 12, less any additional semi-fixed costs or depreciation which this would occasion. If it were necessary to drop A in order to double the sales of B, there would be a net loss of 25 in place of a net profit of 3.

We have the answers to our questions, and if additional information on capital employed were introduced, we should be able to compare alternative profitabilities. But business is not an exercise in arithmetic, so that this alone cannot tell us what to do. It can, however, point out inescapable facts, such as the necessity to maintain sales of A at least at their present level, because of the importance of its contribution of 40 to the overall profit of the business.

Towards a New Budget

The solution of the business problem, then, would proceed from quantitative data such as those given above, plus expert knowledge of business conditions, technical requirements, and financial and taxation facts and considerations. A fair degree of 'flair' would no doubt be necessary, too. Let us assume, in order to proceed, that both products are sold to the same customers, and that a market survey has shown that the demand for A and B is about equal, in spite of the fact that our sales of B are only 40 per cent, in money values, of our sales of A. It appears further that our selling price for B is a little too high for our customers, and that a 5 per cent reduction will make it competitive. This reduction would probably enable us to increase sales of B by about 30 per cent in the coming year, which is within the present capacity of the factory.

A revised budget can therefore be prepared for the coming year – in about five minutes!

	Total	A	B
	£	£	£
Sales	299	200	99
Direct costs			
Manufacturing .. 200	140	60	
Selling 28	20	8	
	228	160	68
Contribution margin ..	71	40	31
Fixed costs	65		
Net profit	6		

The margin on B has gone down to 30 per cent,

and sales can be calculated as $80 \times \frac{95}{100}$

$\frac{130}{100} = 99$. If required, one can calculate the break-

even point of the new policy – where sales of B increase by 23 per cent (new volume = old

volume $\times \frac{35}{30} \times \frac{95}{100}$).

Significance for Cost Accounting

The task of management is partly to look ahead and plan, and partly to achieve fulfilment of its plans. We have seen that marginal costing can help in the former. 'Actual' costs calculated after the event, or 'full' costs developed on the basis of logical assumptions do have their uses in specific situations: in 'cost-plus' contracts, for example, and in long-range planning, but their usefulness in short-period planning is severely open to doubt.

What of the object of control over the execution of plans? If control is exercised by comparing what happens with what was planned, as in the comparison of 'budget' with 'actual', then the cost accounts must be designed to provide information about 'actual' in the same form as was used for the plan. It follows from this that if marginal costing is the proper basis for planning, it must also be the proper basis for control.

The reason why this fact is proving so hard to accept may be because, in the past, cost accountants have looked at selling prices as being composed of so many parts, representing 'recoveries' of different types of cost, together with a further part representing profit. The sales of a product, however, serve first and always to recover the variable costs incurred in its manufacture and sale, that is, the costs which would not have been incurred if the activity had not

been undertaken. The difference between selling price and cost (in this sense), the contribution margin, must cover *both* fixed costs and profit. Sales are not made in order to recover costs, their object is to contribute to this total fund from which fixed costs and profit must come.

A Problem

The marginal costing approach does leave us with one acute problem which affects both cost and financial accounts – the valuation of finished goods and work in progress. In the extreme case of a factory producing goods under conditions of automation, the variable element of total cost may be very small indeed, and both cost and financial accountants find it hard to accept that stocks may be carried forward at prices which represent very small fractions of

selling prices, even where sales take place immediately after the end of the accounting period.

Nevertheless, we must recognize this for what it is – one of the problems attaching to the measurement of period profit. The balance sheet is subject to other distortions arising out of the conventions of period accounting, among which we may mention the valuation of fixed assets. We have arrived at a point in the development of accounting when the balance sheet has become nothing more than its title indicates – a list of balances left over after the correct allocations of revenue and expense have been made to the period which it concludes. The idea that a balance sheet can present a 'true and fair view' is clearly due for a fundamental re-appraisal.¹

¹ 'A moral to the direct costing controversy', by David Green, Jun. *The Journal of Business* (Chicago), July 1960.

Surtax and Companies – I

by J. S. HEATON, F.C.A.

History

THE legislation regulating surtax and companies was first enacted in Section 21, Finance Act, 1922. Amendments were made in 1927; provision was made in 1928 for applying for clearances; and special provisions for investment companies were made in 1936, 1937 and 1939. The course of practice has been even more erratic. A surtax penalty on non-distribution of profits did not accord with the post-war policy of restricting the expenditure of individuals by dividend limitations or restraint. Various Chancellors of the Exchequer made various statements which had the effect of overriding the provisions for surtax directions for the majority of trading companies. The protection was well known as the 'Chancellor's umbrella'. The statements are not reproduced. They appeared in *Hansard* on June 11th, 1947, July 22nd, 1948, and April 25th, 1956. The protection was withdrawn for accounting periods ended after August 1st, 1957 (*Hansard*, August 1st, 1957), and the legislation is no longer in desuetude.

Object of Legislation

2. The opening words of Section 245, Income Tax Act, 1952, indicate its object . . .

'with a view to preventing the avoidance of the payment of surtax through the withholding from distribution of income of a company which would otherwise be distributed'.

This is anti-avoidance legislation. One view is that avoidance of surtax is inherent in incorporation. Profits of individuals are chargeable to surtax without inquiry as to the manner in which those profits are applied. A company pays income tax as a legal entity and not as agent for its members and would not (apart from this special legislation) be liable to surtax. Surtax arises only, therefore, when the income of a company is distributed to its members in a form which constitutes income in their hands. Apart, again, from this special legislation, no surtax liability would attach to undistributed company profits. A more satisfactory view is that the avoidance of surtax to which Section 245 is directed is the liability which would have followed the distribution in an income form of a reasonable part of a company's income. Avoidance, then, arises from failure to distribute a reasonable part of income.

3. As this is anti-avoidance legislation, it follows that the onus of proof that a company has acted unreasonably in withholding distribution of income falls upon the Inland Revenue. The Department must open the case to establish this (*C.I.R. v. Transport Economy Ltd* (35 T.C. 609))¹. It follows that the Inland Revenue has the right to reply to submissions made on behalf of the company.

4. The corrective to avoidance provided by Section 245 consists of authority to the Special Commissioners to direct that the actual income of a company from all sources for a year or period be deemed to be the income of the members for the purposes of assessment to surtax, and apportioned amongst them

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¹ 34 A.T.C. 51.

accordingly. Section 245 will be considered in detail in succeeding paragraphs, but it will be noted at the outset that:

- (a) the attention of the Special Commissioners is directed to non-distribution of a *reasonable part* of income, whilst
- (b) the corrective consists of apportioning the *whole* of the actual income amongst the members and charging surtax accordingly.

This is the fundamental disparity. The corrective does not restore the position which would have arisen if a reasonable part of actual income had been distributed – it goes further and charges surtax as if 100 per cent of actual income had been distributed. To distribute, say, 25 to 30 per cent of actual income instead of 35 to 40 per cent (to use an arbitrary example) involves the threat of a direction that a further 60 or 65 per cent (not 5 or 10 per cent) be charged to surtax. The more protests are made, the more entrenched does the old legislation become. It is true that, in practice, directions are made on relatively few trading companies, and compromised settlements are made whereby agreed dividends are declared for periods at issue, in consideration of the Special Commissioners refraining from formal action under Section 245. Respect for the legislation is not restored by compromised settlements. Legislation which remains largely as a vague threat should be amended to accord with what happens in practice – i.e. power to direct should be limited to what would have been a reasonable distribution.

References

5. Unless otherwise stated, references are to the Income Tax Act, 1952. Finance Acts are abbreviated to 'F.A.'; Commissioners of Inland Revenue to 'C.I.R.'; and references of cases unless otherwise stated are to the official volumes of *Tax Cases*. Companies within the surtax legislation are called 'Section 245 companies'.

Section 245 Companies

6. To what companies does this legislation apply? They are indicated in Section 256 (1) as all those under the control of not more than five persons, except:

- (a) subsidiary companies; and
- (b) those in which the public are substantially interested.

Almost all these concepts and terms require

further definition and examination. They will be considered in turn.

Control of Not More Than Five Persons

7. 'Control' involves:

- (a) exercise, ability to exercise, or entitlement to acquire, direct or indirect control – in particular (but not exclusively) a preponderance of share capital or voting power, by five or fewer persons; or



Mr J. S. Heaton

- (b) possession, or entitlement to acquire, by five or fewer persons, share capital which would provide a majority of the income if the whole income of a company were distributed to the members; or

- (c) liability to apportionment of more than half of the income of a company amongst five or fewer persons, on the assumption that the company is within Section 245, or the assumption that the company and any other company (or companies) are within Section 245. The income apportionable for this purpose includes any income which has been apportioned to the company or could be so apportioned on either of the assumptions mentioned in this subparagraph. In considering

whether there is liability to apportionment of more than half of the income amongst five or fewer persons, it is only persons to whom income is finally apportionable who may be counted, i.e. after any process of original and sub-apportionment has been completed. (See paragraph 52, *post*.)

'Five or fewer persons'

8. Adding up to five is not necessarily a simple exercise. The following must be counted as one:

- (a) *Relatives* – husband, wife, ancestor, lineal descendant, brother and sister.
- (b) *Nominee and the beneficial owner*. A person is a nominee if he possesses, directly or indirectly, on behalf of the beneficial owner, or may be required to exercise on his direction or on his behalf, any right or power which is material in determining whether a company is, or is deemed to be, under the control of five or fewer persons.
- (c) Partners.
- (d) Persons interested in a trust or a deceased's estate.

This list will be sufficient to indicate how difficult it is in practice to find a private company which is not deemed to be in the control of not more than five persons.

Subsidiary companies

9. An exception was made for subsidiary companies. This is by no means so wide as the term literally suggests. For this purpose, a subsidiary is one controlled by means of beneficial ownership of shares by one or more United Kingdom companies which are outside Section 245. It will be noted that a company controlled by an overseas company is not treated as a subsidiary and is, therefore, not outside the scope of Section 245. There is a further requirement that a company which is deemed to be under the control of five or fewer persons will not be treated as a subsidiary, unless it can be deemed to be so controlled only by including a United Kingdom company to which Section 245 does not apply and which is not a nominee. These provisions were the subject of *C.I.R. v. Harton Coal Co Ltd* ([1960] T.R. 165).¹ Three companies held the share capital of the company. Two were outside Section 245 and one was within the section. The first two held seven-twelfths of the shares and the Harton company was, therefore, a subsidiary within the general definition given above, i.e. ownership of shares held by one or more United Kingdom companies which are outside Section 245. It was caught, however, by the further requirement about control, as the third company shareholder (a Section 245 company) was first-named holder of a management share which itself was sufficient to control the company (Section 256 (4) and proviso).

Public interest

10. The exemption from Section 245 for companies in which the public are substantially interested is defined in Section 256 (5). It implies:

- (a) unconditional allotment or unconditional acquisition of
- (b) shares (other than preference or participating preference shares) carrying not less than 25 per cent of voting powers
- (c) to or by the public (not including a Section 245 company) which are beneficially held by the public at the end of the year or period for which accounts have been made up; provided that
- (d) such shares have been dealt in on a United Kingdom stock exchange during the year or period in question, and have been officially quoted on such an exchange. The latter requirement is not, apparently, bound up with the year or period in question.

11. The 'public' comprises those members who do not control by votes. It follows that the five or fewer persons (as defined for this purpose) who control a company cannot be treated as part of the public (*Tatem Steam Navigation Co v. C.I.R.* (24 T.C. 57).)² In another case, B. held 74 per cent of the votes and A. held 26 per cent. A. was a brother of B. and had bought shares. It was held that the public comprised those members who did not control by votes. B. had control (holding more than 50 per cent) so A. was a member of the public and he held more than 25 per cent. This was a Uganda case. It will be appreciated that the requirements as to stock exchange dealings and quotation would have to be satisfied to be exempted from Section 245 (*I.T.C. v. Bjordal* ([1955] T.R. 17)).³ It will be noted that the requirements about holding of shares by the public relate only to the position as at the end of the accounting year or period.

12. A quoted company is not, therefore, necessarily outside Section 245. It may well be under the control of five or fewer persons, and, if so, is removed from the section only by the requirements about the extent of public holdings. If one class of shares is privately held and carries voting rights, public holdings of 25 per cent of another class of voting share would not be sufficient to bring exemption. The public holding of 25 per cent relates to the voting powers attaching thereto, as a percentage of voting powers of all shares in issue.

Distribution of Income

13. If it is established that a company is within Section 245, the Special Commissioners must next consider whether the company has:

- (a) within a reasonable time after the end of the accounting year or period;
- (b) distributed to its members a reasonable part of its actual income from all sources for that year or period;
- (c) in such a form as requires the members to include the distribution in their returns of income for surtax.

14. Disposing firstly of the last requirement, it is noted that a distribution cannot be considered unless it was of an income character. It follows that distributions of realized capital profits, capitalization of profits followed by allotment of bonus shares, or dividends paid after commencement of winding-up would be left out of account.

Requirement as to reasonable time

15. The requirement that a distribution must have been made within a reasonable time after the end of

¹ 39 A.T.C. 259.

² 20 A.T.C. 137.

³ 34 A.T.C. 18.

the accounting year or period does not normally make for difficulties in practice. If there is a regular pattern of dividend declarations, they are unlikely to be challenged by the Special Commissioners merely because the interval following accounting dates is relatively long, for example, the greater part of a year. This provision may be more important, however, on a sale of shares in a Section 245 company. If accounts are made up annually to February 28th and dividends paid at the end of April, it cannot be assumed that the Special Commissioners will take no action if all the shares are sold in March, before declaration of any dividend for the year just ended. In such a case, the sale takes place 'cum dividend' and the vendor takes the price paid as capital. In these circumstances, it is understood to be the view of the Special Commissioners that *any* interval between the end of the accounting period and the sale of the shares (even one day) provides a reasonable time for declaration or payment of a dividend, and failure to take action in that meantime, implies that the company has not made a distribution within a reasonable time. This seems to be an extreme view, as accounts may not be completed in such a short intervening period. In the light of an impending sale, the Special Commissioners seem to think that information adequate for the purpose would be available to the directors. It seems that payment of a dividend by the directors as an interim would be involved, as there often would not have been time for members in general meeting to declare a dividend.

16. It may be possible to anticipate difficulties and to act accordingly. The following points may be relevant in some circumstances:

- (a) Sale of shares on a public flotation may be timed to avoid the period between the end of the accounting period and the usual date of dividend declaration.
- (b) On sale of shares a company may become a subsidiary of another Section 245 company. The same point as in (a) above applies. It might be preferable to extend the accounting period of the first company until the sale has been completed and arrange for the parent company to declare or pay a dividend *before* the end of the extended period. The Special Commissioners have no power to interfere with the duration of an accounting period and if the dividend is declared or paid *before* the end of the period there will be no interval which could be challenged as unreasonable. The purchasing company may well, of course, be unwilling to pay such a dividend.
- (c) The same point as in (a) above would arise on a sale of shares which results in the company becoming a subsidiary of a company which is outside Section 245. Even where the shares are sold before the end of the accounting period, special considerations arise, and a direction is

considered by the Special Commissioners to be competent if an apportionment to five or fewer persons (other than a company outside Section 245) could be made for the period prior to the sale of the shares which would amount to more than half of the income of the whole accounting year or period. If five or fewer persons held all the shares prior to such a sale, it would follow that a direction would be competent if the sale took place in the second half of the accounting year or period. This would arise, of course, only if a reasonable dividend had not been declared within a reasonable time. The foregoing official view is based on the case of *Fendoch Investment Trust Ltd v. C.I.R.* (27 T.C. 53)¹ although this was an investment company.

Requirement as to reasonable distribution

17. The requirement that, to avoid a surtax direction, a reasonable part of actual income from all sources must be distributed, represents the focal point of the whole provisions. Section 246 provides some guidance. Section 246 (1) is positive – the remainder of the section is negative.

The Special Commissioners are directed to have regard to:

- (a) current requirements of the company's business and
- (b) such other requirements as may be necessary or advisable for the maintenance and development of the company's business.

18. The following factors are relevant in considering distributions, in the light of the foregoing directions:

- (a) The current financial position – adequacy of working capital – seasonal character of trade – type of trade and inherent tendency to fluctuations – dependence upon one or a few major customers, particularly without long-term contracts – dealing in or using raw materials subject to wide fluctuations in price – trade susceptible to rapid technical progress – imminent requirements for capital expenditure – the position of a private company with regard to access to finance.
- (b) Requirements for expansion, to be judged from the directors' standpoint of what is considered either necessary or advisable for the benefit of the company's business. Purely voluntary expansion is relevant no less than capital expenditure which is necessary merely to maintain the company's position.

19. Some question may be raised by the use of the expression 'company's business' instead of 'company'. Is the purchase of the shares of another company necessarily an advisable development of the company's business? If the nature of the activities is similar or complementary, the answer would clearly be in the

¹ 24 A.T.C. 41.

affirmative. This would be so for purchase or initiation of additional branches, shops or businesses. A purchase of shares by way of diversification could be different. It could be a reasonable development from the standpoint of the company and its members, as an investment of funds not needed for the company's business, but it does not seem to be a development of the company's *business*. Perhaps too much should not be read into this distinction as no evidence of difficulty in practice is available.

Proposed capital expenditure

20. It is sometimes considered that proposals to incur capital expenditure should necessarily remove the possibility of a surtax direction. There are the following points:

- (a) The timing of proposed expenditure is important. It may well be that no commitment existed at the balance sheet date but definite intentions are expected if the proposals are to be called in aid of the need to conserve finance. A vague idea of incurring expenditure in the indeterminate future is not sufficient.
- (b) Proposed capital expenditure may not provide an adequate reason for withholding distributions, if the resources required are available and can be used without impairing the current financial position of the company. This was brought out clearly in the case of *Montague Burton Ltd (In liquidation) v. C.I.R.* (20 T.C. 48).¹ Protection was not afforded merely because sums equal to the income had been used in maintenance and development. In addition to incurring such expenditure, the company had made large advances to Mr Montague Burton, which he had mainly used in purchase of property and leases. The company could have paid by way of dividend the sums which it so used.

The time factor in considering distributions

21. The point of time in relation to which the reasonableness or otherwise of distributions is to be considered, is that when the directors are called upon to make their decision 'upon a distribution of the whole, or a part, or none, of the realized profit of the year as dividend'. (Romer, L.J., in the *Montague Burton* case (*supra*) at page 72). They must take into account general conditions as at that time, and changes in the trading and financial position which have taken place since the balance sheet date. If directors are meeting to consider distributions at a specific time when outlook generally is pessimistic, they are entitled to be influenced accordingly, temporary though such a phase might prove to be. It follows also that it may not be reasonable to place much weight on capital expenditure already incurred. The directors should be looking at the position of the

company as it is *after* that expenditure has been incurred.

Dividends need not be paid in cash

22. A point in the *Montague Burton* case might be remembered when a loan to a member is shown in the balance sheet. It was suggested in the Court that the dividend need not have been restricted by the cash position, since the dividend due to the main shareholder could have been credited to his loan account, in reduction of the large advances made to him.

Dividends and borrowed money

23. Special provisions, which apply when a company assumes at the outset obligations for borrowed money, will be separately considered. These notes apply when the obligation is incurred at a later stage, not connected with initial capitalization or first acquisition of fixed assets. The case of *Thomas Fattorini (Lancs.) Ltd v. C.I.R.* (24 T.C. 328)² is important in this context. The company was successful in the House of Lords in establishing that its directors had not acted unreasonably in entering into and carrying out an arrangement with the company's bankers whereby profits should be applied in full in reduction of accommodation. It must be stressed that this case does not provide authority for non-distribution on the strength alone of an obligation to apply income in reduction of borrowed money. Was the company acting reasonably in making such an arrangement? Were the directors acting reasonably in withholding dividends because of that arrangement? On the facts and circumstances, it was held that this company and its directors did not act unreasonably. The considerations are illustrated by the words of Lord Atkin (at page 351):

'The onus is originally, and remains on the Revenue to show that the company acted unreasonably in withholding part of its income from distribution . . . what is reasonable . . . it is what *these* directors recommend and *these* shareholders decide in *those* conditions of *that* company. There is no abstract conception of reasonableness.'

24. Clearly, a company is not necessarily acting unreasonably merely because it does not so arrange its affairs as to maximize dividends. Quoting Lord Atkin again:

'I am quite unable to agree that the fact that a company during the year holds income producing investments, raises a *prima facie* case that the reasonable course for the company is so to manage its affairs as to provide for that income or any part of it to be distributed.'

Some danger points

25. There are certain well-known factors in accounts which may be expected to invite action by the Special Commissioners under Section 245. They include:

¹ 15 A.T.C. 29.

² 19 A.T.C. 331.

(a) Distributions to members out of realized capital profits

The Special Commissioners are not disposed to look at available profits (revenue and capital) in relation to the income distribution and to consider whether the latter is reasonable in relation to the whole available fund. Neither will they regard the capital fund as something quite extraneous. The Act supports their view that they are confined to the income fund, and are entitled to ask whether an adequate part has been distributed when a capital distribution has also been made. In other words, can retention of, say, 60 per cent of taxed profits be justified when a capital distribution equivalent to a further 25 per cent has been made? A Section 245 company takes risks, then, in material retention of taxed profits in a year when realized capital profits are distributed. This may be minimized if that distribution coincides with a year of low taxed income, but it must not be overlooked that a capital distribution may have its repercussions in the following year, as evidence against the need for conservation.

(b) Loans to members

This is always a difficult problem as directors often act without asking for advice and regard their company as a bank account without a bank manager. It is very difficult to resist the argument that sums applied in these loans could not equally have been applied in paying dividends, or that dividends could have afterwards been declared and credited to the loan accounts. It does not always follow, however, that an equivalent amount could or should have been so applied. For example, a company made a large loan to a member from funds entirely provided by increasing a bank overdraft. A compromised dividend settlement was made on the basis of the amount which the directors could *reasonably* have distributed. To have extended a distribution by reference to funds obtained and applied in that way would have involved the directors in acting quite *unreasonably*. They did in fact act unreasonably but Section 245 presupposes *reasonableness*.

(c) Purchase of assets from members

This also is a difficult matter. Such a purchase can be a clear case of development of a company's business. For example, companies may be owned personally by members of another company and the whole may be a coherent group. To buy the shares and turn loosely associated companies into wholly-owned subsidiaries is an obvious way of withdrawing funds from the main company, but it may well be logical development. This applies also to purchase of property previously leased to a company by a member; and of property for the occupation of directors or members. Much will depend on the commercial justification for the transactions and the bona fides of the price paid. A Section 245 company

can perhaps indulge best in these transactions in a period in which public interest may provide a rescue by balance sheet date. In any event, care should be taken to have prices supported by appropriate valuations; and resolutions and minutes, in which the provisions of the Companies Act and the articles of association as to interest of directors and quorum for meetings are scrupulously observed.

A practical yardstick

26. When it is a question of fact, to be determined in each case and in each year, as to whether income has been unreasonably withheld, frequent references to doubts and danger signals induce a tendency to immobility. Where does one turn, when every step has its pitfalls? Can nothing positive be recommended? In the first place, statistics of public company dividends and retentions may be considered. At the time of writing, *The Financial Times* index shows that dividends, on the average, were covered rather more than twice by available earnings. Figures are sometimes given which break this down into different industries, which is more significant. It is clearly necessary for a private company to be more conservative, in view of its less ready access to sources of additional finance. The comparison with public companies may be particularly misleading where material capital expenditure is pending. A public company may be inclined to fix dividends in the light of terms on which new capital can be obtained. In the same circumstances, a private company would act quite differently. In the absence of exceptional liquidity and of exceptional stringency; and of any of the danger signals mentioned above; a distribution of 35 to 45 per cent of earnings would be a reasonable starting-point, in the sense that variations therefrom should be individually justifiable. Such a distribution should be considered as a proportion of net taxed profits, e.g.:

Net profits and investment income	£	30,000
Deduct profits tax (15 per cent)	4,500	
income tax (7s 9d)	11,625	
		<u>16,125</u>
Net profits after taxation	£13,875	
40 per cent	£5,550	
Equivalent gross at 7s 9d	£9,061	

Distribution of 40 per cent of net taxed profits involves, therefore, a gross dividend of £9,061 in this case. The increased rate of profits tax now implies total tax of 53.75 per cent of profits, and the additional 2½ per cent should be regarded as reducing by the same amount the proportion of profits reasonably distributable. It must be re-emphasized that no dividend at all may be justified, even where earnings are large, in the light of the factors already discussed. The permutations between extremes are legion. The important points for directors are:

- (a) Consider all the circumstances when the accounts are finalized for submission to the members.
- (b) Take a reasonable view and one on which directors and their advisers can base a reasonable case.
- (c) Indicate, preferably by minute, any special factors on which the decision is taken.
- (d) Act consistently from year to year.

Exceptions for Initial Borrowed Money

27. It was pointed out that Section 246 (1) provides positive directions to the Special Commissioners to take account of current and prospective requirements. Section 246 (2) provides negative directions. Certain sums 'shall be regarded as income available for distribution and not as having been applied or being applicable to the current requirements of the company's business or to such other requirements as may be necessary or advisable for the maintenance and development of that business'. These are sums expended, or applied, or intended to be expended or applied out of the income of the company:

- (a) in or towards payment for the business, undertaking or property which the company was formed to acquire, or which was the first business, undertaking or property of a substantial character in fact acquired by the company; or
- (b) in redemption or repayment of any share or loan capital or debt (including any premium) which was issued or incurred in connection with the acquisition of such business, undertaking or property, or for raising money applied in payment thereof; or
- (c) in meeting any obligations of the company in respect of the acquisition of any such business, undertaking or property; or
- (d) in redemption or repayment of any share or loan capital or debt (including any premium) issued or incurred otherwise than for adequate consideration; and
- (e) any sum expended or applied, or intended to be expended or applied, in pursuance of or in consequence of any fictitious or artificial transaction.

In items (a) to (d) there are dispensations for pre-August 4th, 1914, obligations.

28. The foregoing rules do not imply automatic application of Section 245. The Special Commissioners must still be of opinion that the company has not distributed a reasonable part of actual income in an income form.

29. Inadequate consideration will be deemed to be involved if the value of the consideration to the company is substantially less than the capital or debt (including premium); and where the issue of such capital or incurring of a debt are connected with the

redemption or repayment of share or loan capital or debts which were issued or incurred for inadequate consideration.

30. Section 246 (2) indicates the importance of considering the initial capitalization of a company in relation to subsequent dividend policy and Section 245. If a company has been formed to acquire a private business, part of the consideration being the allotment of shares and the balance left on loan to the company, any reduction in that loan, however long after incorporation, is deemed to involve a similar amount being regarded as available for distribution. Whether or not the directors would be acting reasonably in withholding distribution of that amount is still to be settled. The point is that sums applied in the ways set out above cannot be called in aid of the need for conserving resources – the level of distributions has to be justified as reasonable without that assistance. The same point arises when a bank overdraft is part of original capitalization. Need to apply income to pay off the overdraft cannot be used to justify the level of distributions.

31. When directors' loan or current accounts fluctuate, by crediting dividends and remuneration and debiting withdrawals, when does repayment of the original loan take place? The practice seems to be to regard withdrawals as applied firstly to post-commencement credits, repayment not being considered in relation to Section 246 until the balance is reduced below its opening figure. This delays action beyond the 'first-in, first-out' method of identifying credits and debits.

Surtax Directions and Apportionments

32. If the Special Commissioners are not satisfied that a reasonable part of actual income has been distributed in an income form within a reasonable time, they may, by notice in writing to the company, direct that the income of the company for the year or period concerned, be deemed (for surtax purposes) to be the income of the members and apportioned amongst them. This raises the following questions:

- (1) What is the measure of 'actual income from all sources' for the year or period?

33. This is elaborated in Section 255 (3). The income from any source is to be estimated in accordance with the Income Tax Acts, except that the computation is to be made by reference to the income of the year or period at issue, and not by reference to any other year or period. A computation of statutory income on income tax principles is involved, taking the current year basis and ignoring the conventional preceding year basis of assessment. Capital allowances other than initial and investment allowances, are spread on profits tax lines, so as to correspond with the accounting year or period. Initial and investment allowances are treated as investment allowances for profits tax – by deducting the allowance on qualifying expenditure incurred in the year or period at issue.

Balancing allowances are deductible but balancing charges need not be included (*C.I.R. v. Wood Bros. (Birkenhead) Ltd (In liquidation)* (38 T.C. 275)).¹

EXAMPLE

Actual income from all sources for year ended February 28th, 1961.

Trading profits as adjusted for income tax	£	£
Dividends on investments (gross) ..		18,000
Building Society deposit interest ..		1,000
Add for income tax at 7s 9d ..	245	
	155	
		400
Schedule A assessments		500
Schedule D Case VI - excess rents		100
		£20,000

Deduct:

Capital allowances:

Annual and balancing allowances - $\frac{1}{12} \times 1959-60$
(£3,600) + $\frac{11}{12} \times 1960-61$ (£4,200) 4,150

Initial and investment allowances on expenditure in year to February 28th, 1961 850

Loan interest (gross) 500

Ground rent (gross) 300

Patent royalties (gross) 200

6,000

Actual income from all sources £14,000

Note: On the assumption that profits tax liability of the year to February 28th, 1961, will be discharged if a surtax direction is made on the above figures, no deduction for profits tax will be due. (See paragraph 81, *post*.)

Directors' remuneration

34. As the actual income from all sources is computed on income tax principles, it follows that remuneration and bonuses of directors are almost invariably deducted as allowable for income tax. The exceptional case would be that in which remuneration is disallowed for income tax under the authority of *Copeman v. Flood* (24 T.C. 53).² It also follows that bonuses to directors do not provide an automatic corrective to action under Section 245. For example:

Profits before deduction of bonuses ..	£	10,000
Bonuses to directors		5,000
Net profits		£5,000
Dividend paid		nil

It cannot be said that 50 per cent of income has been distributed, as only after deduction of bonuses does income emerge. The company must justify 100 per cent retention of £5,000. This it may well be able to

do, but it is not the same as justifying retention of 50 per cent of £10,000.

(II) The second question arising from direction and apportionment is - Amongst whom is the actual income of the year or period apportionable?

35. 'Member' includes 'any person having a share or interest in the capital or profits or income of the company'. (Section 255 (2).) This goes beyond the names appearing in the register of members, and would cover the beneficial owner of shares registered in the name of a nominee, and the beneficiary entitled either to income or capital from shares registered in the names of trustees (*Alexander Drew & Sons Ltd v. C.I.R.* (17 T.C. 140)).³ The expression will not include:

- beneficiaries of estates in course of administration;
- persons included in a class of beneficiaries who might benefit from a discretionary trust; or
- a settlor on whom distributions of income would be chargeable to income tax and surtax (e.g. when paid for the benefit of the settlor's own minor child). (*Houry v. East Africa Commissioner of Income Tax* ([1959] T.R. 331).)⁴

36. As to estates in course of administration, it may sometimes be a contentious point as to when completion takes place - when the executors become trustees of the residuary capital for beneficiaries (absolute or limited). The Special Commissioners may contend that administration is completed even where debts, such as for estate duty are undischarged, although agreed. If professional costs have not been rendered, it does not seem that administration can be regarded as completed. (See the case of *Sir Aubrey Smith*, 15 T.C. 661.)⁵

37. An illustration of the extension of the expression 'member' is afforded by the case of *C.I.R. v. R. Woolf & Co (Rubber) Ltd* ([1960] T.R. 285).⁶ The issue was whether debenture-holders had a 'share or interest' within Section 255 (2) and could be reached by an apportionment, within Section 256 (2) (c). The decision in the High Court was in the affirmative. The debenture-holders, through the trustees of the trust deed, had an interest in the company's assets, which included the capital, profits and income, and they were therefore 'members' within Section 245. The competence of an apportionment was held to be established by the decision in *F.P.H. Finance Trust Ltd (No. 2) v. C.I.R.* (28 T.C. 209).⁷

³ 11 A.T.C. 294.

⁴ 38 A.T.C. 328.

⁵ 9 A.T.C. 63.

⁶ 39 A.T.C. 302. (The decision in the case of *Woolf & Co* has since been reversed in the Court of Appeal.)

⁷ 24 A.T.C. 7.

¹ 37 A.T.C. 373.

² 19 A.T.C. 521.

Procedure on Apportionments

38. When a direction has been given under Section 245, the apportionment of actual income from all sources is to be made by the Special Commissioners in accordance with the respective interests of the members (Section 248 (1)). Notice must be given to the company by the Special Commissioners showing the amount of actual income adopted for the purposes of Section 245 and either the amount apportioned to each member or the amount apportioned to each class (Section 248 (2)).

39. The company may appeal against the notice of apportionment by notice to the clerk to the Special Commissioners within thirty days. The Commissioners shall hear and determine the appeal and the provisions of the Income Tax Acts relating to appeals against assessments and the statement of a case for the opinion of the Court will be applicable. (Section 248 (3) and (4).)

40. In normal cases, the apportionment will be by reference to shareholders in ratio of their holdings and will produce the same effect as a dividend absorbing all the computed figure of actual income. Apportionment by reference to the respective interests of members does not necessarily, however, produce that result. (See the case of *R. Woolf & Co*, considered above, for example.) This matter is developed in more detail in relation to investment companies – see paragraph 87, *post*.

Consequences on Apportionment

41. When an apportionment has been made, surtax is assessed and charged in respect of the sum apportioned, after deducting in each case the amount distributed to members, by way of taxable income, for the year or period at issue (Section 249 (1)). The income apportioned to a member which is assessable and chargeable to surtax will be deemed to be income and to be the highest part of income. It will be treated as received on the accounting date unless appeal is intimated within thirty days of the date of the direction under Section 245, when the Special Commissioners may fix such alternative date as they consider just, 'having regard to the dates on which distributions of income have been made by the company, and so as to avoid, as far as possible, the inclusion for the purposes of surtax for any year of income referable to more than one year'. (Section 249 (2) (c).)

42. It will be noted that the amount already distributed for the year or period in question is deductible from the amount apportioned to each member, but the tax year in which the distribution was made may differ from that in which the accounting year or period ended. Thus, a dividend paid April 30th, 1961, for the year ended January 31st, 1961, would be deducted from the amount apportioned to each member. The dividend would be income of 1961–62,

and the net sum apportioned would be treated as income of 1960–61. Income of the latter year would probably include dividend for the year ended January 31st, 1960, paid, for example, on April 30th, 1960. There are two courses open to the taxpayer. He may appeal, within the time limit indicated above, to the Special Commissioners to fix a date other than January 31st, 1961, as that on which the apportioned income shall be treated as arising. Alternatively, he may apply for relief under Section 238, the section which deals generally with surtax on income received in one year which is relative to more than one year. Application must be made within the time limited for appeal against the surtax assessment. The relief is to be such as the Special Commissioners consider to be just. The combination of dividend for an earlier year with apportioned income for a later year was at issue in the case of *Gollin v. C.I.R.* (25 T.C. 161 and 27 T.C. 6).¹ This was the case which prescribed a mountain of a formula for a molehill of relief. The figures were:

(a) Dividend for year ended March 31st, 1938, paid in 1938–39 ..	£	s	d
(b) Apportioned income for 1938–39 ..	4,965	0	0
(c) Other income	4,989	0	0
	3,717	0	0

Total income of 1938–39 .. £13,671 0 0

This produced surtax liability of £3,082 7 6

£ s d
Surtax without apportioned income would be based on (a) + (c) £1,294 7 6

Surtax on (b) (leaving the dividend (a) out of account) would be:

Surtax on (b) + (c) 1,301 17 6	£	s	d
Less Surtax on (c) 158 7 6			
	1,143	10	0
	£2,437	17	6

Section 238 relief: £3,082 7s 6d – £2,437 17s 6d = £645.

This eliminated the increase in rate of surtax which would have arisen from including both (a) and (b) in a figure for total income.

43. Although the deduction of dividend actually paid was mentioned above as relative to each member, this is not to be construed in a personal sense, but rather as the holder for the time being of a specified number of shares. The dividend paid may be received by a different member from the one on whom an apportionment has been made as on the accounting date.

Persons Liable on Apportionment

44. Reference has already been made (see paragraph 35, *ante*) to members who may be reached on apportionments and to cases in which apportionment

¹ 22 A.T.C. 34; 24 A.T.C. 385.

is abortive. The latter will include overseas companies and United Kingdom companies to which Section 245 does not apply. Surtax may be charged on the husband when the member is his wife (*Latilla v. C.I.R.* (32 T.C. 181)).¹

Charge to Surtax

45. Surtax arising from an apportionment on a member is assessable on that member in the name of the company and the general rule is that the tax is payable by the company. Surtax provisions regarding assessments, and collection and recovery of tax will be applicable (Section 249 (3)).

46. A notice of charge to surtax is served in the first instance on the member on whom the tax is assessed. If he does not elect to pay the tax within twenty-eight days of the date of the notice, a notice of charge is then served on the company and the company becomes liable for the surtax.

47. Notwithstanding a member's election to pay, the tax may be collected from the company if he in fact fails to pay on the normal due date or within twenty-eight days of the date on which he elected to pay (whichever is the later).

48. A reverse right arises when notice of charge has been made on the company or its liquidator and the tax is unpaid within three months of date of service of the notice or on its normal due date (whichever is the later). The tax may then be recovered from the member.

49. The rights of recovery reserved to the Revenue as set out in the two preceding paragraphs, are without prejudice to rights against the primary party, i.e. the member and the company, respectively (Section 249 (4)). Except in a liquidation, the company cannot recover surtax from its members.

Distribution of Apportioned Income

50. In order to obviate a double charge, income which has been the subject of an apportionment is not chargeable to surtax when subsequently distributed. If surtax is in fact paid on any such distribution, it may be recovered, on satisfying the Special Commissioners of the double assessment (Section 249 (5)). A case which was remarkable for two things was decided in 1959 on this provision - *C.I.R. v. Hudspeth* (38 T.C. 465).² The first was its decision, the second was for the description of the legislation, i.e. Chapter III of Part IX of the 1952 Act as 'the fasciculus of sections which deal with surtax on undistributed income of certain bodies corporate'. The company had paid a dividend for one period and apportionments were made for two periods, after deducting that dividend. Further dividends for these periods were declared and were virtually equal to the amounts apportioned. Full relief under

Section 249 (5) might have been indicated but was in fact restricted to a lower figure which represented the 'commercial profits' of the two periods. It was in order, therefore, to apportion figures computed on a statutory fiction but relief for a dividend subsequently paid must be limited by the facts shown by the accounts. The extra amount must be regarded as having been distributed from earlier years' profits.

Time Limits

51. There is nothing in the legislation which prescribes time limits within which directions and apportionments must be made, unless the statutory machinery has already been put in motion. The normal surtax provisions relating to assessments apply (Section 249 (3)) and the normal six-year time limit arises, therefore, in relation to assessments which are consequential upon the direction and apportionment. A point of some interest and much difficulty arises from the extension of time limits for making assessments in back duty cases which is authorized by the Finance Act, 1960. Would this, in possibly extreme cases, empower the Revenue to make assessments, consequent upon directions and apportionments, beyond the normal six-year time limit?

Apportionments and Inter-connected Companies

52. Section 254 provides for the case in which income of a company is apportioned to a member which is another Section 245 company. The first apportionment is called the 'original apportionment' and the process is to be continued by means of 'sub-apportionments', whereby the excess of income apportioned to the second company over amounts received as distributions out of the income of the same year or period, is apportioned amongst the members of the second company; and so on, until all income of the year or period is apportioned to members other than Section 245 companies. Income apportioned to the members of the second or subsequent companies in the chain will be deemed to have been received on the same date as that under the original apportionment. The second and any other companies must comply with a notice from the Special Commissioners calling for a statement of the names and addresses and particulars of the respective interest of their members as on the last day of the year or period for which the original apportionment was made. Surtax which is chargeable as a result of a sub-apportionment is assessable on the member of the second or subsequent company in the name of the first company, and payable by the first company, subject to the same right of the member to elect to pay as exists in ordinary cases. The ordinary provisions relating to assessment, collection and recovery of tax apply to the second and any other companies in the chain.

(To be concluded.)

¹ 29 A.T.C. 398.

² 38 A.T.C. 190.

Weekly Notes

Inland Revenue Under Scrutiny

THE *Seventh Report of the Estimates Committee*, Session 1960-61, Inland Revenue, published this week (H.M.S.O., 13s), is perhaps remarkable among reports of this kind in that it actually recommends increased expenditure in one field. The Committee takes a serious view of the fact that the branch of the Chief Inspector of Taxes is 300 below its authorized strength. Despite the increases both in yield and complexity of income tax and in the number of taxpayers, there are now, according to the Committee, only about 1,900 fully trained Inspectors compared with about 1,750 before the war. It recommends that proposals submitted by the Association of Her Majesty's Inspectors of Taxes should be examined. These include more higher posts, higher initial salaries, and less delay on the part of the Civil Service Commissioners.

The report, which dilates upon what the Committee regards as the inordinately high cost of collecting tax levied under Schedule A, will be reviewed more fully in next week's issue.

Bank's Warning

WITH the Bank of England's *Quarterly Bulletin* now well and truly established, the need for an expanded annual report is lessened. Whether or not the report for the year ended February 28th, 1961 - which is similar to the reviews of the early post-war years - is adequate, is a matter on which opinions may well differ. Nevertheless the two brief outline articles contained therein, the first reviewing the past year's events and the second dealing with developments in international monetary co-operation, are quite useful.

Drawing attention to the failure of the 1960 Budget to restrain the rising level of private consumption, the first article notes that the developments in 1960, such as the deteriorating balance of payments, the pressure on sterling and full employment (should it not be over-full?) were in part a repetition of earlier crises. It suggests, too, that the emergence of the 1960 payments deficit was attributable to 'adverse underlying trends which had been overlaid in the preceding two years by temporarily favourable factors'. The precise interpretation of this statement is uncertain; in one sense it is true, but it cannot surely be meant to justify the Government's tardy response to the mounting evidence - long before the beginning of 1960 - of the inadequacies of the British economy. The lack of growth in industrial production, the rising level of wages and the favourable shift in the terms of trade, which helped conceal the truth from the public, were evident to the informed. Likewise, the monthly announcements of ever-increasing gold and dollar reserves may have lulled the public into

believing that all was well with the economy; but surely they did not 'mask' the truth from the Government.

The authors are on much firmer ground when they stress that the newly-established co-operation between European central banks in offsetting speculative movements of short-term funds, together with the increase in the facilities available from the International Monetary Fund, mean that the 'major currencies are now in a far stronger position than they were before to withstand the pressure of such movements'. But, states the report, 'these arrangements do not in any way change the basic situation. The interim relief they provide should be put to good use and no effort should be spared to correct any underlying weakness in the balance of payments'.

Purchase Tax Regulation Invalid

SECTION 33 of the Finance (No. 2) Act, 1940 empowers the Commissioners of Customs and Excise to make purchase tax regulations. In purported exercise of this power the Commissioners made regulations in 1945 which entitled them in the absence or incompleteness of purchase tax returns, to determine the tax payable and to require it to be paid within seven days of demand, unless the demand was shown to their satisfaction to be wrong. The Commissioners sued for tax under this power but Mr Justice Sachs found for the defendant on the ground that the regulation went beyond the statutory powers and for three reasons: the Commissioners had attempted to assume the powers of a High Court judge; the legislation permitted collection of what was lawfully due, not what they believed to be due; and finally the regulation purported to oust the jurisdiction of the Courts (*H.M. Customs & Excise v. Cure & Deely Ltd*, as reported in *The Times*, of July 22nd).

Profits Tax Appeal Fails

THE two-tier system in profits tax was abandoned in 1958 but the law on it is still being settled. Section 37 (1) of the Finance Act, 1947, is the most recent topic to be canvassed in the Courts. It provides that where a chargeable accounting period is not a period for which accounts have been made up, then gross relevant distributions are to be computed for periods for which accounts have been made up (being periods falling wholly or partly within the chargeable accounting period) as if they were chargeable periods, 'and such division and apportionment to specific periods of the amounts so computed and such aggregation of any such amounts or of any apportioned parts thereof shall be made as appears necessary to arrive at the gross relevant distributions to proprietors for the chargeable accounting periods'.

In *T.S.S. Investments Ltd v. C.I.R.*, as reported in *The Financial Times* of July 20th, the appellant company made up accounts for the year ended March 31st, 1955. It became a subsidiary of another company during that year and paid two large dividends

to the principal on March 16th, 1955. The Revenue made a direction under Section 38 (4) of the Finance Act, 1947, fixing the following chargeable accounting periods: April 1st, 1954, to March 7th, 1955; March 8th, 1955, to March 14th, 1955; March 15th, 1955, to March 31st, 1955.

The company argued that the dividends, having been paid within the last period and not having been expressed to be for an earlier period, were distributions of the last period only. The Crown argued that the period of accounts, i.e. the year ended March 31st, 1955, fell partly within the chargeable accounting period March 15th, 1955, to March 31st, 1955, and that the dividends ought to be apportioned over the three chargeable accounting periods. The Crown's argument was upheld.

Broiler Houses not Agricultural Buildings

ALTHOUGH the rearing of chickens by the broiler method is an agricultural operation in the normal sense of that phrase, a broiler house cannot be said to be used solely in connection with agricultural operations on the land which surrounds it, within the meaning of Section 2 of the Rating and Valuation (Apportionment) Act, 1928. The chickens do not feed or exercise there, and their food is not grown there. This was the decision of the Lands Tribunal in a test case heard last May and June on the question whether such houses qualified for rates exemption under Section 67 of the Local Government Act, 1929, as being agricultural buildings, according to *The Financial Times* of July 21st.

Export Guide Changes Name

WITH the July 1961 issue of the *Export Guide* there has come a change in its sponsorship. Having been published for five years under the auspices of the General Electric Co Ltd, it now appears under the title *L.S.M. Export Guide*, indicating its ownership by the London School of Marketing Ltd, which is a subsidiary of Sales Audits Ltd.

Since the last number was published for the second quarter of 1961, export prospects, according to the *Guide*, are good in nineteen countries, improving in three, unchanged in four, deteriorated in six, and bad in two. Since April the outlook has improved in France and the United States, but has deteriorated in the Federation of Rhodesia and Nyasaland, in New Zealand, and in Venezuela.

Dealing with the strength of sterling the *Guide* says that the pound will be under pressure in foreign exchange until early in 1962. As to whether there should be a devaluation of sterling even in the long run when current problems have been overcome, depends on how far exports can be expected to rise if devaluation were to take place. The latest issue of the *Bulletin for Industry* points out that the main factor in the deteriorating balance of payments situation for the United Kingdom has been the rapid worsening of the invisible account since 1958.

Between 1958 and 1960 the invisible account had dropped from a surplus of £229 million to £22 million mainly due to higher Government expenditure, lower net shipping income, and smaller net returns on capital invested abroad. The *Bulletin* does not think that the invisible account will become worse, which would probably mean it slipping into a net deficit, but it does not look forward to any specific improvement. To return to the *Export Guide*, the devaluation of sterling, it thinks, would be a once-and-for-all measure (at least for a number of years) and it would certainly stimulate cost inflation whatever it would do to help exports.

E.F.T.A. Annual Report

THE first annual report of the European Free Trade Association has been published this week and covers the period up to July 1st, 1961.

The report considers the reduction of tariffs by 30 per cent within twelve months as a big achievement and notes that the customs procedures necessary in a free trade area have worked smoothly. Note is taken of the fact that the remaining quantitative import restrictions have been relaxed and that no complaints have been made about unfair trading practices.

The outstanding fact about E.F.T.A.'s trade in 1960 has been that trade between the members developed faster than exports to other main trading areas. While trade within E.F.T.A. went up by 15 per cent compared with 1959, that to the European Economic Community went up by 12 per cent and E.F.T.A. exports to other parts of the world increased by 9 per cent. This last figure owes something to the declining exports to the United States.

The report expresses the wish of E.F.T.A. countries to reach agreement with the members of the European Common Market. By the time the next annual report is published, vital decisions on this issue are likely to have been made for better or for worse.

Co-ordinating Technical Assistance

THE new Government department – the Department of Technical Co-operation – came into existence this week. It co-ordinates all United Kingdom technical assistance to overseas countries. The minister in charge, Mr Dennis Vosper, will be known as the Secretary for Technical Co-operation, and the permanent head is Sir Andrew Cohen.

The new department has taken over the present work on technical assistance carried out by the Foreign Office, the Commonwealth Relations Office, the Colonial Office and the Ministry of Labour. Its activities include recruitment and training of staff for service overseas by Governments and international organizations, responsibility for the work done on geodetic, topographical and geological surveys, educational co-operation, making arrangements for research assistance, providing technical assistance on matters relating to air and surface transport as well as telecommunications and the postal service, and the provision of specialist advice.

Tales of a Tax Man

by HAROLD E. COX

5 - SOME CUSTOMERS AND I

I BECAME an Inspector of Taxes by chance and although I always did my job, with possibly more than average application, I never felt inspired by any Schweitzer-like devotion. I tried always to remember that I was dealing with human beings, frail and fallible as I was, and still am. I had certain statutory duties to perform and official regulations to obey and I was convinced I could do this best by being cheerfully helpful and tolerant whenever possible. I never let the job wholly contain me.

Income tax is an art and not a science. The fact that the two sides of an account add up to the same total does not for a moment give that account the conformity of an algebraic equation. The accounts were prepared by a man, from records kept by another man, and they are to be examined by yet another man, and all men have their rather pathetic limitations. I am reminded of the character in Lawrence Treat's novel, *Weep for a Wanton*, who says:

'You're damned right I'm serious. I want to save my neck that's all. I used to go for every lousy racket that smelt like a buck but that's over. I now go right down the line with the Chamber of Commerce. I keep two sets of books like a respectable citizen and I sleep nights and got no worries because I'm covered.'

I once had occasion to warn a clergyman about his incorrect income tax returns. He seemed rather unmoved and unrepentant, so I emphasized the seriousness of the matter quite forcibly. His only remark was: 'You seem to be making a mountain out of this don't you? After all it's only income tax.' It's difficult to understand this attitude but it exists. It cannot be dispelled by big-brother bullying, officious threats or table-thumping warnings. I found people responded much more readily to gentle leading and firm handling afterwards.

Some years ago I had to investigate the tax affairs of several market butchers and they all became back-duty customers. I handled them, not as hardened criminals, but as human beings who had been guilty of certain foolish actions. They responded and settlements came quite rapidly and satisfactorily. The sequel to this happened one morning when a market trader called at the office and asked to see me. I never refused to see anyone at any time and so he was brought up to my room. He opened his conversation: 'Mr Cox, I hear you've been cleaning up the market boys.' I admitted I had tidied up just a few, and asked, 'Why?' After a few moments hesitation he continued: 'Well - I'm told you're not so bad for

a tax inspector; I want to put things right. I did some fiddling myself during the war years.' I got him off to an accountant and he was soon about £2,000 lighter. Some weeks after this I walked through the market and passed alongside this man's stall, without being aware of it until a voice called out. 'Hello Mr Cox! How's trade?'

To me the most attractive feature of the job has been the opportunity to meet people in all walks of life. I remember discussing his farm losses with a noble lord and expressing my scepticism about men who go on farming in order to make losses. He assured me, most emphatically, that he was feeling the financial pinch very severely indeed. To demonstrate this he took off his coat and showed me the label. His suit had cost him thirty shillings.

Then there was the master plumber who eventually arrived to see me after about four letters and a threat of distraint by the collector. I gave him my usual introductory lecture and then proceeded to advise him. Much to my astonishment I found he had fallen fast asleep. I shook him until he awakened and learned that he had taken four aspirin tablets and drunk three tots of rum, to give him courage to call! I took him out and we sat down in a nearby park where I gave him his lecture again. A couple of days later his wife called to thank me - 'My old man is now almost sane again.'

Between the wars it was quite usual for the small shopkeeper to take his books to the Inspector of Taxes and the profits would be computed at an interview - a rough and ready procedure when tax was not so obtrusive. There was one such occasion when the inspector looking through a wages book observed repeated entries like: A. Abrahams £5. S. Abrahams £6. M. Abrahams £5, and on inquiring was told, 'They are wages paid to my sons, Abe, Solly and Myer'. 'But' the inspector pointed out, there are several weeks with two entries 'A. Abrahams £5. A. Abrahams £6. You surely don't pay him twice a week!'. 'Oh no! Mr Inspector.' There followed a long, awkward pause and then enlightenment came beaming over his face, 'Vell no - they are my two sons, Abe and 'Arry.'

An extremely nervous young father called at the office and staggered the young lady at the counter by asking: 'Excuse me, miss, are you the young lady I have to see about having a baby?'

Looking back over my years as an inspector I think I can say with Ogden Nash: 'When I consider how my life was spent, I hardly ever repent.' In spite of all the trials and tribulations, the occasional boredom and frequent frustration, I suppose I have had, in common with gravediggers, dentists and undertakers, many lighter moments to compensate.

Francis Bacon wrote: 'Money is like muck, not good except it be spread.' I think I may claim to have done a reasonable job of muck-spreading.

Our 'Industrious Accountant' will be with us again next week.— Editor.

Finance and Commerce

Wiggins Teape

THIS year brings the bicentenary of the founding of the business of Wiggins Teape & Co Ltd, the paper makers. Originally it was a wholesale stationery business started in 1761 at No. 10 Aldgate in the City of London. It continued there for 172 years until group headquarters were moved in 1933 to near-by Mansell Street, and in 1956 to Gateway House in the shadow of St Paul's Cathedral.

The 200th anniversary has been marked by an enlargement of the annual report, which includes short descriptions of certain aspects of the business with pictures, and photos of the chief executives. Mr L. W. Farrow, O.B.E., F.C.A., the chairman, hopes members will find it informative and interesting. Some of the pictures in colour, notably that of Chartham Mill in Kent, are indeed an adornment to a well-produced annual report. But some of the material provided is of doubtful value: the 'Percentage analysis of group sales' based on sterling value, for instance. This gives a whole page picture of a giant reel of paper cut horizontally to show the proportion in commercial and business papers (32 per cent), speciality papers (13 per cent), packaging paper (11 per cent), tissue papers (5 per cent), converted products (21 per cent) and merchanted products (18 per cent).

These figures are repeated in an 'analysis of group sales' in the chairman's statement where the eye appreciates their relevance far more easily.

Joint Company

An important event marking the 200th year is a link-up with the British-American Tobacco Co Ltd for the purpose of developing jointly overseas paper-making interests. For this purpose, a joint holding company is being formed and is being strengthened financially by B.-A. Tobacco subscribing for 1,800,000 Wiggins Teape shares at 60s, a price above the market when the proposal was made and announced. Mr Farrow points out that the proceeds will provide the money which Wiggins Teape will have to put up for its share of the cost of capital developments during the next few years.

The arrangement became effective from January 1st, the beginning of the current year, and understanding of what it entails is assisted by the provision of *pro forma* balance sheets at that date after giving effect to the transfer and sale of assets to the proposed new holding company.

One thing with this report that does not assist its reading is the absence of paragraphs: every line of

reading matter begins against the left margin. Why this should have been done is a mystery. Long experience in the presentation of the printed word proves that the frequent breaking of the column of print by indented paragraphs is an aid to its reading.

Back to 1894

THE accounts presented at the seventy-third annual meeting of The Industrial and General Trust Ltd are the last to carry an audit report signed jointly by Messrs Deloitte, Plender, Griffiths & Co and Messrs Whinney, Smith & Whinney. The connection dates back to 1894 when Mr Frederick Whinney was appointed joint auditor with the original auditor, Mr John G. Griffiths. In 1906 these two gentlemen retired and at their request were succeeded by their respective firms.

Sir Edwin Herbert, the chairman of the company, says that 'it has recently become increasingly clear to your board that to continue to use the services of two such eminent firms of accountants was not justified'.

'We put this problem to our auditors', he continues, 'and found that they agreed with our view. To help us in our difficulty, Messrs Whinney very generously agreed not to seek re-election'.

The report and accounts, this time, are in a new form and include a ten-year record of progress. It shows, if the necessary adjustments are made for capitalization and rights issues, that the ordinary dividend in ten years has risen from the equivalent of 7½ per cent approximately, to 26 per cent; while the net asset value of the 5s shares has gone up from about 9s 2d in 1952 to 38s 9d on March 31st last.

Cars in Recession

AN explanation by Mr D. T. Brock, chairman of Automotive Products Associated Ltd, of the causes of the drop in profit gives an interesting insight into what happens in the motor industry in a recession. The profit for 1960 amounted to £1,953,660 compared with £2,115,482. It was a very difficult year, says Mr Brock. Earlier planned expansion to meet the motor industry's requirements was taking effect and the demand was considerably greater than expected for the first part of the year.

Then came a 'severe recession', a heavy drop in the delivery demands from various customers and a rearrangement of the lower delivery rates for various models. This hit the company in two ways. While the motor manufacturer was able immediately to stop supplies coming in at a greater rate than required, the supplier of components was not in the same happy position and had to stockpile. Secondly, the rate of working on the planned capacity available having been suddenly reduced meant an immediate increase in overheads. On top of this came wage increases and higher material costs.

The company's name covers such components as Lockheed brakes and Borg and Beck clutches.

The Wiggins Teape Group Consolidated Profit and Loss Account

	Year 1960 (52 weeks)		Year 1959 (52 weeks)	
	£	£	£	£
Group Trading Profits subject to the items detailed below, amount to	8,727,439		6,917,155	
Add				
Investment Income—				
Trade	53,568			49,704
Other, including profit on sales of Government Securities	61,498			42,190
	115,066	8,842,505	7,009,049	91,894
Deduct				
Repairs and renewals	1,683,976		1,475,413	
Pensions and Contributions to Pension Funds	317,852		284,920	
Interest on Loans	77,447		75,270	
Directors' Remuneration, etc.—				
Fees	12,373			13,500
Emoluments	90,802			89,129
Present and Former Directors' Pensions	12,174			10,445
	115,349		113,074	
Auditors' Remuneration	33,293		30,810	
Provisions—				
Pensions	56,666			154,962
Depreciation	292,998			218,545
	349,664	2,577,581	2,353,994	373,507
Group Trading Profits before taxation (see note 2, page [148])		6,264,924	4,655,055	
Deduct				
Taxation based on Profits of the year (see note 3(a), page [148])		2,583,098	1,918,222	
		3,681,826	2,736,833	
Add				
Taxation overprovided in previous years		25,018	63,740	
Group Profits after taxation		3,706,844	2,800,573	
Deduct				
Profits of Subsidiary Companies applicable to Outside Shareholders		23,042	51,061	
Profits available to Wiggins, Teape & Co. Ltd. carried forward to page [145]		£3,683,802	£2,749,512	

The Wiggins Teape Group Consolidated Balance Sheet 31st December, 1960

	31st December, 1960		2nd January, 1960	
	£	£	£	£
Capital, Wiggins, Teape & Co. Limited—				
7 per cent. Cumulative Preference Stock	3,887,421			2,977,811
Ordinary Stock	15,096,284	18,983,705	12,949,067	9,971,256
Capital Reserve—				
Share Premium Account (see note 4, page [148])		268,296	5,049,218	
Revenue Reserves—				
General	9,027,152			7,691,239
Profit and Loss Accounts	834,989			550,873
	9,862,141		8,242,112	
	29,114,142		26,240,397	
Interest of Outside Shareholders of Subsidiary Companies—				
Preference Shares	1,019			1,272,769
Ordinary Shares and proportion of Reserves attributable thereto	135	1,154	1,352,910	80,141
Mortgage Debentures (Secured on the assets of Wiggins, Teape & Co. Limited)				
3½ per cent. Mortgage Debenture Stock 1950/75	1,372,763			1,445,522
4½ per cent. Second Debenture Stock 1971/81	3,701,316			3,509,616
	5,074,079		4,955,138	
	34,189,375		32,548,445	
Amounts Set Aside—				
Obsolescence (see note 3(b), page [148])	5,975,503			5,333,734
Future Income Tax 1961/62	1,840,225			1,417,398
Income Tax deferred by Initial Allowances	599,379			595,758
	8,415,107		7,346,890	
Loans—				
Pension Funds	399,747			394,164
6 per cent. Registered Unsecured Notes (Issued by an Australian Subsidiary Company)	876,494			876,494
Mortgages	81,934			53,946
	1,358,175		1,324,604	
Current Liabilities and Provisions—				
Creditors and Accruals	4,759,010			3,547,502
Taxation	2,361,416			1,608,313
Provisions for Pensions	1,569,852			1,513,186
Net Dividends	924,670			832,865
	9,614,948		7,501,866	
	£53,577,605		£48,721,805	

July 29th, 1961

THE
ACCOUNTANT

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	Year 1960 (52 weeks)		Year 1959 (52 weeks)	
	£	£	£	£
Profits available to Wiggins, Teape & Co. Ltd. brought forward from page [144]		3,683,802	2,749,512	
(£2,890,138 (1959, £2,159,702) is dealt with in the accounts of Wiggins, Teape & Co. Limited)				
Deduct				
Interest on Mortgage Debenture Stocks (Net)		128,637	128,545	
Amounts set aside for Obsolescence (of which £482,142 (1959, £444,459) is set aside by Subsidiary Companies)		614,714	561,970	
		<u>743,351</u>	<u>690,515</u>	
		2,940,451	2,058,997	
Deduct				
Dividends, less Income Tax—				
On 7 per cent. Cumulative Preference Stock		147,166	98,471	
On Ordinary Stock—				
Interim Dividend of 4 per cent. on £15,096,284 (1959, 5 per cent. on £8,981,447)	369,853			275,043
Proposed Final Dividend of 10 per cent. on £15,096,284 (1959 13½ per cent. on £9,971,256)	924,646			824,498
	<u>1,294,499</u>		<u>1,099,541</u>	
Transfer to Capital Reserves—				
Pre-acquisition profits for 1959 of Companies acquired during the year	—		74,215	
Transfer to Revenue Reserves—				
Wiggins, Teape & Co. Limited	1,185,000			715,000
Subsidiary Companies	<u>29,670</u>		<u>720,971</u>	<u>5,971</u>
	1,214,670	2,656,335	1,993,198	
		<u>284,116</u>	<u>65,799</u>	
Add				
Balances brought forward from the previous year		550,873	485,074	
Balances Carried Forward—				
Wiggins, Teape & Co. Limited	116,846		114,582	
Subsidiary Companies	<u>718,143</u>	<u>£834,989</u>	<u>£550,873</u>	<u>436,291</u>

	31st December, 1960		2nd January, 1960	
	£	£	£	£
Fixed Assets—				
Land, Buildings, Plant, etc., per Schedule 1, page [146]	24,304,923		22,089,680	
Goodwill, Patent Rights, Trade Marks, etc., at Cost, less amounts written off and realised and premiums paid on acquisition of shares less Pre-acquisition Profits and Reserves of Subsidiary Companies	4,030,248		2,064,117	
	<u>28,335,171</u>		<u>24,153,797</u>	
Trade Investments—				
At Cost, less provisions and amounts written off—				
Quoted—				
South African Pulp and Paper Industries Limited—				
404,474 Ordinary Shares of 10s. each, fully paid	562,016		562,016	
44,350 6 per cent. Registered Unsecured Convertible Notes	44,350		47,200	
	<u>606,366</u>		<u>609,216</u>	
Others				
	<u>606,366</u>		<u>609,218</u>	
	102,973		103,161	
Unquoted—				
Market Value of Quoted Securities £840,747 (1959, £917,586) Directors' Valuation of Unquoted Securities £102,973 (1959, £103,161). Total £943,720 (1959, £1,020,747)		709,339	712,379	
Current Assets—				
Stock in Trade at lower of cost and net realisable value	10,834,736		8,749,380	
Debtors and Prepayments	9,743,137		8,229,098	
Government Securities at Market Value			830,666	
Tax Reserve Certificates	761,775		—	
Municipal Loans	1,380,000		—	
Cash at Bankers, in Transit and in Hand	1,813,447		2,445,317	
	<u>24,533,095</u>		<u>20,254,461</u>	
Cash at Bankers (Proceeds of Rights Issue)		24,533,095	23,855,629	3,601,168

L. W. FARROW, } Directors
G. JOHNSTON, }

£53,577,605 £48,721,805

The Wiggins Teape Group Schedule I

Freehold and Leasehold Land and Buildings, Plant and Machinery, Vehicles, Equipment, etc.

	31st December, 1960		2nd January, 1960		
	Cost (unless otherwise stated) £.	Deprecia- tion £	£	Deprecia- tion £	Cost (unless otherwise stated) £
Freehold Land (including Water Rights), Railway Sidings, Buildings, etc., at Cost or Valuation	6,044,598	*	6,044,598	5,477,369	5,477,369
Residential Estate, at Cost or Valuation	684,662	*	684,662	653,549	653,549
Foreign Freehold Properties	1,321,074	*	1,321,074	1,121,023	1,121,023
Paper Mill Plant and Machinery— United Kingdom	13,018,340	*	13,018,340	12,259,913	12,259,913
Overseas	693,699	*	693,699	664,870	664,870
Loose Plant, Tools, Utensils, Dandy Rolls, etc., at the net amounts standing in the Companies' books at 3rd January, 1948 (or on the last preceding accounting date in the case of certain Export Com- panies), plus additions at Cost	126,635	*	126,635	124,829	124,829
Unallocated Expenditure— United Kingdom	67,694	*	67,694	—	—
	<u>£21,956,702</u>		<u>£21,956,702</u>	<u>£20,301,553</u>	<u>£20,301,553</u>
Plant and Machinery (other than at paper mills), at Cost or Valuation— United Kingdom	2,050,245	1,080,019	970,226	653,519	1,375,252
Overseas	436,986	236,856	200,130	115,193	227,831
Leasehold Properties, at Cost or Valuation	549,279	105,590	443,689	421,901	507,581
Motor Vehicles	527,651	282,766	244,885	176,081	258,140
Furniture, Fittings, etc.	789,132	299,841	489,291	421,433	661,742
	<u>£4,353,293</u>	<u>£2,005,072</u>	<u>£2,348,221</u>	<u>£1,788,127</u>	<u>£3,206,627</u>
	<u>£26,309,995</u>	<u>£2,005,072</u>		<u>£1,418,500</u>	<u>£23,508,180</u>
Total, per Consolidated Balance Sheet, page [145]			<u>£24,304,923</u>	<u>£22,089,680</u>	

Notes.—1. The Depreciation of the assets which are marked above with an * in the "Depreciation" column is provided by charging the cost of renewal directly to Revenue or by writing off the original cost of the asset renewed.

2. The amounts set aside for Obsolescence and for Depreciation include amounts set aside by Subsidiary Companies before their acquisition by the Company.

Pro-Forma Balance Sheets 1st January, 1961

(After giving effect to the transfers of the Net Assets referred to in the Circular to the Members dated 7th March, 1961 and the sale of the Assets to the proposed new holding company to be jointly owned by Wiggins, Teape & Co. Limited and British-American Tobacco Company Limited)

	Wiggins, Teape & Co. Limited £		The Wiggins Teape Group £	
Capital, Wiggins, Teape & Co. Limited— 7 per cent. Cumulative Preference Stock	3,887,421		3,887,421	
Ordinary Stock	15,096,284		15,096,284	
Capital Reserve— Share Premium Account	267,322	18,983,705	268,296	18,983,705
Realisation Account	3,049,534		3,049,534	
Revenue Reserves— General	8,071,919	3,316,856	9,024,727	3,317,830
Profit and Loss Accounts	116,846		330,937	
		8,188,765		9,355,564
		30,489,326		31,657,199
Interest of Outside Shareholders of Subsidiary Companies— Preference Shares				1,019
Ordinary Shares and proportion of Reserves attributable thereto			1,154	135
Mortgage Debentures (Secured on the assets of Wiggins, Teape & Co. Limited and a Subsidiary Company)— 3½ per cent. Mortgage Debenture Stock 1950/75	1,372,763		1,372,763	
4½ per cent. Second Debenture Stock 1971/81	3,701,316		3,701,316	
		5,074,079		5,074,079
		35,563,405		36,732,432
Amounts Set Aside— Obsolescence	649,348		5,235,760	
Income Tax Contingencies	530,000		1,833,102	
Income Tax deferred by Initial Allowances	—		543,048	
		1,179,348		7,611,910
Loans— Pension Funds	177,558		399,747	
Mortgages	—		81,934	
		177,558		481,681
Current Liabilities and Provisions— Creditors and Accruals	148,088		4,454,230	
Taxation	554,881		2,257,060	
Provisions for Pensions	—		1,529,510	
Net Dividends	924,646		924,670	
		1,627,615		9,165,470
		<u>£38,547,926</u>		<u>£53,991,493</u>

Wiggins, Teape & Co. Limited Schedule 2

Freehold and Leasehold Land and Buildings, Plant and Machinery, Vehicles, Equipment, etc.

	31st December, 1960		2nd January, 1960	
	Cost (unless otherwise stated)	Deprecia- tion	Cost (unless otherwise stated)	Deprecia- tion
Freehold Land (including Water Rights), Railway Sidings, Buildings, etc.	£ 1,326,251	£ *	£ 1,261,544	£ *
Residential Estate	206,808	*	187,448	*
Paper Mill Plant and Machinery	2,714,981	*	2,571,153	*
Loose Plant, Tools, Utensils, Dandy Rolls, etc., at the net amount standing in the Company's books at 3rd January, 1948, plus additions at Cost	60,287	*	58,906	*
	<u>£4,308,327</u>	<u>£4,308,327</u>	<u>£4,079,051</u>	<u>£4,079,051</u>
Leasehold Properties	255,012	35,670	223,555	29,906
Motor Vehicles	46,738	35,660	7,820	31,968
Furniture, Fittings, etc.	339,591	80,957	240,599	65,495
	<u>£641,341</u>	<u>£152,287</u>	<u>£471,974</u>	<u>£127,369</u>
	<u>£4,949,668</u>	<u>£152,287</u>	<u>£4,551,025</u>	<u>£127,369</u>
Total, per Balance Sheet [Not reproduced.]		<u>£4,797,381</u>	<u>£4,551,025</u>	

Note.—The Depreciation of the assets which are marked above with an asterisk * in the "Depreciation" column is provided by charging the cost of renewal directly to Revenue or by writing off the original cost of the asset renewed.

	Wiggins, Teape & Co. Limited	The Wiggins Teape Group
	£	£
Fixed Assets—		
Land, Buildings, Plant, etc.		20,823,261
Goodwill, Patent Rights, Trade Marks, etc., at Cost, less amounts written off and realised and premiums paid on acquisition of shares less Pre-acquisition Profits and Reserves of Subsidiary Companies		3,869,475
	—	<u>24,692,736</u>
Trade Investments—		
At Cost, less provisions and amounts written off—		
Quoted	—	42,132
Unquoted	39,094	91,856
Subsidiary Companies—		
Shares at Cost or Valuation	£ 15,771,550	
Loans and Debenture	<u>12,433,037</u>	
	28,204,587	
Associated Company—		
Shares at Valuation	<u>7,065,847</u>	<u>7,500,000</u>
	35,309,528	7,633,988
Current Assets—		
Stock in Trade	—	9,231,865
Debtors and Prepayments	161,653	8,669,444
Current Accounts with a Subsidiary and an Associated Company	1,077,717	104,132
Tax Reserve Certificates	450,000	761,775
Municipal Loans	1,200,000	1,380,000
Cash at Bankers, in Transit and in Hand	<u>349,028</u>	<u>1,517,553</u>
	3,238,398	21,664,769
	<u>£38,547,926</u>	<u>£53,991,493</u>

The Wiggins Teape Group Notes on Accounts**1 General**

(a) The Assets and Liabilities of seventeen Export or Foreign Subsidiary Companies as at the 31st August, 1960, have been consolidated, and the resulting net difference in inter-company accounts, amounting to £292,246, has been included in the Consolidated Balance Sheet under the heading "Debtors and Prepayments". The Directors consider that, if the financial year of these companies were to be altered to coincide with that of the rest of the Group, there would be excessive delay in the presentation of these Accounts.

(b) Foreign currencies have been converted at approximate current rates of exchange, with the exception of those relating to Fixed Assets which have been converted at rates ruling at the dates of purchase.

2 Group Trading Profits (page [144])

The Group Trading Profits before Taxation, £6,264,924, include £335,832 in respect of the Profits for the year 1960 earned by four of the recently acquired Paper Converting Companies.

3 Taxation (page [144])

(a) The charge for Taxation is detailed as follows—

	1960	1959
Income Tax	1,894,967	1,518,686
Profits Tax	557,014	334,477
Foreign and Dominion Taxation	128,209	51,025
	<u>2,580,190</u>	<u>1,904,188</u>
Income Tax deferred by Initial Allowances	2,908	14,034
	<u>£2,583,098</u>	<u>£1,918,222</u>

(b) The Group has received capital allowances on its Fixed Assets which exceed the relative amounts provided in the Accounts for amortisation and depreciation. The effect of this is to defer to a subsequent year, at the rates of tax then in force, tax which would otherwise be

payable on the profit of the year. Tax deferred by Initial Allowances is dealt with separately and the Amounts Set Aside under the heading of Obsolescence amply cover tax deferred by other capital allowances.

4 Share Premium Account

The premium paid on the shares less the discount on debentures issued during the year (£274,801), less expenses of issues (£70,095), have been added to the Share Premium Account and the amount of £4,985,628 capitalised for the Bonus Share Issue has been deducted.

5 Revenue Reserves

In addition to the amount of £1,214,670 (Parent Company £1,185,000) transferred from Consolidated Profit and Loss Account, the surplus realised on sale of property amounting to £121,243 has been placed to Reserve by a Subsidiary Company.

6 New Subsidiary Companies

The incorporation of these Companies' net assets in the attached Consolidated Balance Sheet is reflected by appropriate additions to Goodwill £1,750,300, Amounts Set Aside for Obsolescence £90,480, and Depreciation £396,641.

7 Contingent Liability

The Parent Company has given a guarantee in respect of the 6 per cent. Registered Unsecured Notes of Wiggins Teape and William Nash Pty. Limited up to £A1,100,000, together with the interest thereon.

8 Commitments

(a) Thirteen companies have covenanted to pay to the Wiggins Teape Group Pension Funds, in addition to their ordinary contributions, annual sums amounting to £16,127 (Parent Company £4,636), until 1969 and reducing sums thereafter until 1995.

(b) There are Capital Commitments amounting to approximately £3,007,000 (1959, £306,000) in respect of New Projects, Extensions and Improvements, of which £390,000 (1959, £39,000) is attributable to the Parent Company.

CITY NOTES

HAVING overcome the obstacle of the interim Budget and having made the initial market adjustments, the City is now getting down to business within the limits defined by the interim measures. The true worth of the moves made, however, will only be seen in course of time.

It remains to be seen whether the cycle of recurring economic crises can, in fact, be broken. The basic trouble is not necessarily economic but political. Possibly, recurring crises are part of the price that has to be paid for democracy.

A democracy that offers a choice of Government to the populace every five years must face the fact that politicians are human and that there must inevitably be times when political expediency will overrule economic necessity.

General elections are not won by the offering of economic blood, sweat, toil and tears but by the offer of milk and honey. Invariably, politicians have to compromise on economics and compromise economics are, to say the least, not of the highest order.

The strain has to show somewhere, particularly under conditions of full, and at times overfull employment. Odd year economic bulges which can be corrected by short-term measures are an acceptable alternative to deeper and prolonged recessions. Possibly the latest measures are better designed than those taken in past instances but whether they are an absolute answer — or even whether there is an absolute answer — is doubtful.

RATES AND PRICES

Closing prices, Wednesday, July 26th, 1961

Tax Reserve Certificates: interest rate (26.11.60) 3%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 27, 1961	7%

Treasury Bills

May 19	£4 8s 3·18d%	June 23	£4 10s 8·47d%
May 26	£4 8s 8·74d%	June 30	£4 10s 8·94d%
June 2	£4 8s 9·61d%	July 7	£4 10s 8·80d%
June 9	£4 9s 4·14d%	July 14	£4 11s 4·47d%
June 16	£4 10s 0·42d%	July 21	£4 12s 5·62d%

Money Rates

Day to day	5½-5¾%	Bank Bills	
7 days	5½-5¾%	2 months	6½-6¾%
Fine Trade Bills		3 months	6½-6¾%
3 months	7½-8%	4 months	6½-6¾%
4 months	7½-8%	6 months	6½-6¾%
6 months	7½-8½%		

Foreign Exchanges

New York	2·79½-½	Frankfurt	11·11½-½
Montreal	2·88-½	Milan	173½-2½
Amsterdam	10·03½-½	Oslo	19·08½-99
Brussels	139·04½-05½	Paris	13·67½-½
Copenhagen	19·31½-32½	Zürich	12·05-½

Gilt-edged (revised List)

Consols 4%	58½	Funding 3% 59-69	80½
Consols 2½%	38½	Savings 3% 60-70	76½xd
Conversion 5½% 1974	91½	Savings 3% 65-75	69½
Conversion 5% 1971	89½	Savings 2½% 64-67	82½
Conversion 3½% 1969	82xd	Treasury 5½% 2008-12	87½
Conversion 3½%	53½	Treasury 5% 86-89	83
Exchequer 5½% 1966	97	Treasury 3½% 77-80	68½
Funding 5½% 82-84	91½	Treasury 3½% 79-81	67½
Funding 4% 60-90	87	Treasury 2½%	38½
Funding 3½% 99-04	58	Victory 4%	94½xd
Funding 3% 66-68	80½	War Loan 3½%	53½

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Capital Budgeting

SIR, - The letters by Mr J. A. Scott and Mr R. T. Sampson in your issue of July 15th, draw attention to certain aspects of the subject so lucidly presented in Mr Green's excellent articles on 'Capital budgeting' published during June.

The volume of capital investment in this country is now very substantial each year, both in private enterprise and in the nationalized industries. While conceding that certain accounting tools are not as yet perfect, I feel that greater use could be made with advantage of the techniques available for assessing capital projects. Those particularly in mind are the calculation of pay-back periods and the return on investment ratio obtained by the discounted cash flow method.

Yours faithfully,
JAMES RISK.

Amersham, Bucks.

Professional Publicity

SIR, - Ever since the joint stock banks commenced their vast advertising campaign advising the public that they are able to take care of almost every aspect of an individual's business needs, including the investment of his money, his personal taxation and the administration of his estate when he has departed this life, I have wondered when the Council of the Institute would rouse itself and commence advertising our wares, on behalf of all chartered accountants, who are prohibited from advertising them personally.

I think we all fully appreciate the undesirability of personal advertising, the cheapening of our professional status which it would entail, as well as the fact that those firms who could afford the biggest campaign would reap the greatest rewards. Also that for most it would be represented largely by just another charge in our annual profit and loss accounts.

But we are a fairly young profession and I have always felt that our members, including those who serve on our Council, were progressive and in the forefront of modern business trends.

I had always considered the Law Society on the other hand, the more senior partner of the professions, to be more conservative. How is it then that I see currently on the bookstalls a glossy paperback entitled *The Services of a Solicitor*, acquainting the world at large with all the services offered by that

illustrious body, and how is it that I am currently able to enjoy on television each week, the new series entitled *Family Solicitor*, so that we may see at home 'before our very eyes', exactly how beneficial it would be, in any of our little difficulties, to drop in and have a chat with the nearest solicitor?

Although I understand that a Publicity - or Public Relations - Committee of the Council of the Institute was formed last year, I think it is high time that we heard at least the distant rumblings of its thunder.

Yours faithfully,

J. DUNCAN FRENCH, F.C.A.

Liverpool.

The Nationalized Industries and Inflation

SIR, - The recent White Paper, *The financial and economic obligations of the nationalized industries* (Cmd. 1337), raises issues which are of great interest to the accounting profession.

Paragraph 7 refers to the fact that the Nationalization Acts require the industries to provide for the redemption of capital. In so far as capital has been applied towards the acquisition of fixed assets, this means that the industries should provide the equivalent of double depreciation. The summary of what the Government consider should be the financial objectives of the nationalized industries (paragraph 19) omits any reference to this item. Are we to understand that the Government have now decided that this statutory requirement should be ignored? If so, surely this should be clearly and unequivocally stated.

Paragraph 19 states that in arriving at the surplus and deficit each year depreciation should be charged on the historic cost basis. In addition, the following provisions should be made from revenue:

- (i) Such an amount as may be necessary to cover the excess of replacement cost over historic cost depreciation.
- (ii) Allocations to general reserves for development.

This presumably means that historic cost depreciation is 'charged' before arriving at surplus; but that additional amounts to cover replacement cost basis, together with allocations to general reserves, should be provided by appropriations from surplus. From 1956-57 the Post Office has been showing in its accounts a supplementary sum 'to make the total depreciation reflect the current value of the plant'; and this supplementary sum has been charged together with historic cost depreciation before arriving at surplus. Thus, the Post Office has been 'charging' higher depreciation and not making 'an appropriation from revenue' to meet the increased costs. Does the White Paper mean that the Post Office accounts in future will be altered so as to show any addition to historic cost depreciation as an appropriation from surplus?

However, the most important matter is probably

the decision, as recorded in the extract from paragraph 19 shown above, that the nationalized industries must take into account the replacement cost of their fixed assets. What is really meant by 'replacement cost'? Is it the original cost of plant and machinery as amended by the index of fixed asset prices? Is it the approximate cost of buying similar plant and machinery today in cases where the appropriate price lists are available? Or is it just someone's guess?

Apart from the difficulty of arriving at a reliable figure, the whole theory that one must provide for the replacement cost of existing assets is untenable. For the most part, plant and machinery will never be replaced, as in the case of certain units of the gas industry where it is planned to switch from the present method of gas production with a coke residue, to the new system of complete gasification of coal. For this purpose an entirely different type of plant is required. The replacement cost of the original plant is quite irrelevant.

The higher cost of plant and machinery today compared with prices ruling when the nationalized industries acquired their assets is only one aspect of the effect on accounts of changes in the value of the pound. It is of equal importance to allow for the effect of inflation on borrowed money – which is the source from which the industries' assets were acquired. In this instance it is the lenders who have suffered through inflation and not the industries themselves, since repayment will be made in pounds of lower purchasing power. The whole subject, which is admittedly complicated, is fully examined in my book *Accounting for Inflation*. Quite clearly, the replacement cost system is not the solution to the problem, as the Council of The Institute of Chartered Accountants in England and Wales demonstrated as long ago as May 1952, when they issued their Recommendation 15.

The White Paper also requires provision to be made from revenue for adequate allocations to general reserves as a contribution towards capital development – a form of self-financing which is generally considered to be prudent financial practice and is encouraged by the Nationalization Acts. The further requirement that amounts should be provided in excess of historic cost depreciation is in reality only another form of self-financing which is unnecessary if 'adequate' allocations to general reserves have been made.

Yours faithfully,

Birmingham.

LIONEL WILK.

'Inconsequential' Tax Evasion in the U.S.A.

SIR, – I enjoyed reading 'Tales of a tax man' in the July 1st issue but I am surprised that, based on what may well be a single experience, there is the completely unfounded inference that tax evasion is universal in the United States.

After a dozen years in practice in Belfast and more

than thirty in New York, I see little difference between both countries in the approach to paying taxes. There is grumbling and complaining and a little exaggeration as to what is a legitimate tax deduction, but by and large evasion is inconsequential.

It should be remembered that in the United States the certified public accountant plays almost as responsible a part as the chartered accountant in Britain when it comes to filing tax returns. In addition, the Treasury Department staff in the United States is relatively much larger than in Britain. The machinery for filing, checking and collecting taxes makes evasion difficult apart from the honesty of the taxpayer.

Yours truly,

New York.

JOHN PEOPLES.

Blind Accountants

SIR, – Regarding the problems of blind accountants who wish to continue in their chosen profession recently referred to in your correspondence columns (July 1st issue), may I suggest that these unfortunate gentlemen could make a very valuable addition to the teaching bodies of the various technical schools.

As sight in this work is secondary to knowledge and clarity of mind, I think you may agree that this will be a good answer to a grave problem.

Yours faithfully,

DAVID WALTON.

Eastleigh, Hants.

Store-keeping without Stock Records

SIR, – In the July/August issue of *Target*, a method of store-keeping that avoids the keeping of stock records was described as being in use at a factory of British Nylon Spinners.

For those readers who have not seen the article, the method is based on a segregation or clear separate indication, on a physical basis, of minimum and re-order level stocks from free stocks.

This method is not difficult to envisage in the case of a distributive organization or in a manufacturing organization concerned with standard products.

It would be interesting to hear from any of your readers who have any experience of operating a scheme of this kind in a manufacturing organization where production is largely 'to order' and where 'appropriation' for specific orders takes place before actual issue.

Yours faithfully,

E. CARSON,

Chief Accountant,

WILD-BARFIELD ELECTRIC FURNACES LTD.

Watford, Herts.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the judgments, in the 'Annotated Tax Cases'.

British Commonwealth International Newsfilm Agency Ltd v. Mahany

In the High Court of Justice (Chancery Division)
July 6th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Loss - Adjustment of liability - Annual payment made to a trading company - Whether recipient entitled to repayment of tax - Income Tax Act, 1952, Sections 123 (Schedule D, Case III), 34I - Finance Act, 1953, Section 15 (3).

In 1956 the appellant company was formed by the Rank Organisation Ltd (Rank) and the British Broadcasting Corporation for the purpose of supplying visual news on a world-wide scale, and of ensuring that the company should remain under British control, and of preventing the supply of visual news material being dominated by American interests. The company was incorporated on March 8th, 1957, and its main object was expressed to be the supplying of a service of world news. The subscribers, Rank and the B.B.C., held an equal number of shares, and each appointed the same number of directors. Later, the Canadian Broadcasting Corporation and the Australian Broadcasting Commission also took shares in the company, and each appointed a director.

It was expected that the company's activities would not be a commercial proposition in the early years, and on October 31st, 1957, Rank and the B.B.C. agreed that each of them would pay to the respondents an additional subscription equal to half the amount of the deficit. The agreement recorded that the aims of the parties were not those of commercial gain, and that the company's profits should be applied first in improving the quality and expanding the range of the service, and then in reducing the amount payable by subscribers for the benefit of the service. On the same day a deed of trust was executed reciting that the four shareholders wished to ensure that the company should remain under British control, and that the news offered to subscribers should be collected and supplied in an impartial manner. The deed repeated the desire of the parties thereto that the control of the company should remain British, and that their aims were not those of commercial gain. The four parties covenanted with the trustees that as shareholders in the company they would use their best endeavours to ensure the implementation of recommendations

made by the trustees regarding the policy and methods of the company.

In March 1958, it was apparent that the company would make a loss for the accounting period ending on the 31st of that month, and that Rank and the B.B.C. would have to make additional subscriptions to cover the loss. Rank had not had any business dealings with the company, though some of its subsidiaries had had to a small extent. In the hope of improving the tax position Rank and the B.B.C. made a deed of covenant with the company on March 28th, 1958, to cover the tax years from 1957-58 to 1964-65; and each covenanted with the company to pay to the latter in each covenant year a sum equal to half the deficit. The deficit for the period from March 8th, 1957, to March 31st, 1958, was £125,180, of which Rank's share was £62,590. Rank sent the company a cheque for that sum less tax and gave it a certificate showing that the amount of tax deducted was £26,600 17s 2d. The respondent claimed repayment of that sum.

It was contended for the respondent that the payment under the deed of covenant was a trade receipt of the company. It was contended for the company that the sum in question was not a trade receipt, because there was not a *quid pro quo* for it, and because Rank had had no trading relationship with the company during the tax year in question. The Special Commissioners decided that the sum was a trade receipt, and that the company was not entitled to repayment of tax.

Held: the Special Commissioners' decision was correct.

Godden v. A. Wilson's Stores (Holdings) Ltd

In the High Court of Justice (Chancery Division)
June 28th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Cessation of trade - Termination of service agreement - Payment of sum therefor - Whether that sum deductible by company - Income Tax Act, 1952, Sections 122 (Schedule D, Case I), 137 (a).

Down to March 31st, 1958, the company carried on business as a rubber and coco-nut planter in Malaya, and its profit for that period was assessable under Case I of Schedule D. On March 15th, 1958, an agreement was made for the sale of the company's estates, and the sale was completed on March 31st, 1958, and on that day the company's business was discontinued.

The manager of the company's estates in Malaya had served the company in that capacity since 1946, and the terms of his service during the material period were stated in a letter dated August 19th, 1957. The agreement recorded in the letter was to be for six months certain and thereafter subject to six months' notice on either side, and notice was to be given on March 31st or September 30th in any year. On February 25th, 1958, the board directed that the

manager should be given formal notice to terminate his employment as from March 31st, 1958, and that he was to be paid £1,900 representing the salary for the six months to September 30th, 1958, and the estimated commission he would have earned in that period. This payment was to cover any claims the manager might have against the company. These arrangements were accepted by the manager in a letter dated March 7th, 1958. The £1,900 was paid to the manager on March 28th, 1958, and was charged in the company's profit and loss account for the nine months ending March 31st, 1958.

It was contended on behalf of the appellant that the £1,900 was not deductible in computing the company's profit for that period, in that the sum was not expended for the purpose of the company's trade, for the trade was about to end. It was contended on behalf of the respondent that the £1,900 was deductible because it was a payment that had to be made in order that the company might be released from its liabilities under the letter of August 19th, 1957. The Special Commissioners decided in favour of the respondent.

Held: the £1,900 was not paid for the purpose of enabling the respondent to carry on its business and earn profits; and that the sum was not deductible in computing the profit of the period in question.

Hibbert v. Fysh

In the High Court of Justice (Chancery Division)
June 27th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Schedule E - Undischarged bankrupt - No order to attach subsequent earnings - Whether these earnings assessable - Bankruptcy Act, 1914, Sections 38, 51 - Income Tax Act, 1952, Section 156 - Finance Act, 1956, Schedule II - Income Tax (Employments) Regulations, 1950, Regulation 53.

The appellant was assessed for 1958-59 and 1959-60 in respect of the earnings from his employment as a waiter. From 1939 to 1948 he had carried on a business, but in the latter year he was adjudicated bankrupt. No order to attach any part of his earnings subsequent to his bankruptcy was made under Section 51 of the Bankruptcy Act, 1914, or otherwise. The subsequent earnings were used by the appellant for his own purposes. The adjudication order remained undischarged throughout the tax years under appeal.

It was contended by the appellant that as he was an undischarged bankrupt, the earnings assessed on him were not his own property, and therefore the assessments were invalid. It was contended on behalf of the respondent that these earnings had never vested in the trustee in bankruptcy, and were the appellant's own property, and were assessable accordingly.

Held: the contention on behalf of the respondent was correct.

De Voil v. Welford Gravels Ltd

In the High Court of Justice (Chancery Division)
July 4th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Schedule A - Gravel-pit - Additional Schedule A assessment thereon - Whether assessment limited to annual value for previous year - Income Tax Act, 1952, Sections 82 (paragraph 1 (c) of Schedule A), 84, 105, 106, 113.

A farm of about 115 acres included a gravel-pit of about twenty-one acres, and the whole farm was assessed under Schedule A at £108 gross and £80 10s. net. Prior to 1956 the gravel-pit had been used as such to only a small extent, but in that year a large local demand for gravel arose, and the owners of the farm obtained development permission to extract gravel from the twenty-one acres. It was a condition of the permission that any machinery or structures should be erected on an adjacent wooded area. The owners of the farm sold the twenty-one acres and the wooded area, twenty-three and a half acres in all, and the sale was completed on February 22nd, 1957. The purchaser company let the respondent company into occupation, and the latter started operations for extracting the gravel at the end of March 1957. On December 31st, 1957, the purchaser company granted a lease of the site to the respondent company for twenty-one years from March 1st, 1957, at a rent of £60 a year. This lease denied the respondent the right to extract gravel or any other mineral from the land. On the same day, however, a licence was given by the purchaser company to the respondent to extract gravel in return for a payment of 4s. a cubic yard.

In 1957, about 56,000 cubic yards of sand and gravel were extracted by the respondent, and in 1958 it extracted 60,000 cubic yards. The sums payable to the purchaser company for those years were £11,200 and £12,000 respectively. After the Schedule A assessment for 1957-58 on the farm as a whole had been made, the Inland Revenue became aware of the sale of the twenty-three and a half acres, and the annual value of the farm as a whole was apportioned between the owners and the purchaser company. Later the Inland Revenue learned that the respondent was extracting sand and gravel from the twenty-three and a half acres, and an additional assessment under Schedule A was made on the respondent in the sum of £5,000 gross and £3,475 net.

It was contended on behalf of the respondent that the additional assessment was invalid, in that the twenty-three and a half acres was not a new unit of assessment. The General Commissioners accepted this contention, and discharged the additional assessment.

Held: the General Commissioners' decision could not be disturbed.

ELECTRONICS IN THE OFFICE**COMPUTER EXHIBITION AND SYMPOSIUM**

THE second electronic computer exhibition to be held under the patronage of H.R.H. The Duke of Edinburgh will take place at Olympia, London, from October 3rd to 12th. During the exhibition an electronic data processing symposium will be held. The exhibition and the symposium have been organized jointly by the Office Appliance and Business Equipment Trades Association and the Electronic Engineering Association, and will run concurrently with the Business Efficiency Exhibition.

Since the exhibition of 1958, a new generation of computers has come into being and the advances made in their production, supported by the practical experience of users, have produced computers which, more than ever before, place at the disposal of management a more compact and economic means of achieving integrated control. The comprehensive display of computers and ancillary equipment by thirty-seven leading manufacturers will show visitors the vital role which this equipment is playing in raising productivity and efficiency in factory and office. Units on display will fall into two broad categories: standard production computers, and computers specially designed for large-scale data-processing, scientific and research work. It is interesting to note that, in conjunction with the exhibition, some exhibitors will be organizing visits to computer installations in operation in factories and offices.

SYMPOSIUM

The Electronic Data Processing Symposium is to be held from October 4th to 7th. At six sessions, executives from a wide range of concerns – both private and State enterprises – will give management the benefit of their own practical user knowledge of applying computer techniques to their particular problems. Delegates will receive copies of papers in advance of each session, and will be invited to question the speakers.

The three-day programme of sessions, with subjects and speakers, is shown below. Entry to the computer exhibition does not include entry to the electronic data-processing symposium: delegates for the symposium must be registered.

The admission charge to the exhibition is 2s 6d and to the symposium £2 12s 6d per session. Further details and enrolment forms for the symposium are obtainable from Mrs S. S. Elliott, M.B.E., The Electronic Data Processing Symposium, 64 Cannon Street, London, EC4. Telephone: Central 7771-2.

SYMPOSIUM PROGRAMME**Session 1. Wednesday, October 4th, morning:**

'Government experience', by Mr J. D. W. Janes, H.M. Treasury; 'Production control scheme for Letchworth factory', by Mr J. Grant, International Computers & Tabulators Ltd; 'Inventory control, accounting and payroll', by Mr A. Bradley, Ford Motor Co Ltd.

Session 2. Afternoon:

'Establishing electronic data processing at the Trygg-Fylgia insurance companies, Stockholm', by Mr K.-E. Schang, Trygg-Fylgia Insurance Company's Group,

Sweden; 'Three-and-half years' practical experience', by Mr N. C. Pollock, Stewarts and Lloyds Ltd; 'Invoicing', by Mr A. J. Brockbank, Glaxo Laboratories Ltd; 'Production control by hiring computer time', by Mr R. B. Baggett, Job White & Sons Ltd.

Session 3. Thursday, October 5th, morning:

'Provisioning 1,300 shops', by Mr D. S. Greensmith, Boots Pure Drug Co Ltd; 'Data processing in commerce', by Mr L. G. Bonney, Crosse & Blackwell Ltd; 'Use of a computer in banking', by Mr J. Letham, The Bank of Scotland Ltd; 'Using a computer for insurance work', by Mr F. C. Knight, Commercial Union Assurance Co Ltd.

Session 4. Afternoon:

'An approach to integrated production control', by Mr W. J. Kease, A.E.I.-Hotpoint Ltd; 'Finished stock control, production, monitoring, sales, statistics, etc.', by Mr F. Stubbs, A.E.I. Lamp & Lighting Co Ltd; 'Commercial planning for an integrated oil company', by Mr W. P. Brown, Shell International Petroleum Co Ltd; 'Recording and controlling production stocks', by Mr D. O. Bell, Standard-Triumph International Ltd; 'Production planning', by Mr J. Antill, A.C.W.A., Rubery, Owen & Co Ltd.

Session 5. Friday, October 6th, Morning:

'Survey of the computer bureaux service', by Mr D. W. Hooper, M.A., F.C.A., The British Computer Society; 'Structural stress calculations', by Dr C. P. Wroth, G. Maunsell & Partners; 'Costing oil drilling operations', by Mr G. de Verteuil, Schlumberger Overseas S.A.; 'Planned stock control', by Mr C. H. Bayliss, The Ever Ready Co (Great Britain) Ltd; 'Keeping an inventory of precious metals', by Mr S. A. Emery, Engelhard Industries Ltd; 'Evaluation of confidential materials', by Mr A. J. Stevenson, Stevenson & Howell Ltd; 'A market survey', by Mr H. Wormald, Midlands Electricity Board.

Brains trust: Chairman, Mr D. W. Hooper, M.A., F.C.A., The British Computer Society (remaining members to be selected).

Session 6. Afternoon:

'The place of the programmer', by Dr S. Gill, Ferranti Ltd; 'Character recognition', by Dr M. B. Clowes and Mr J. R. Parks, National Physical Laboratory; 'New equipment', by Dr A. S. Douglas, C.E.I.R. (U.K.) Ltd.

New Service for Stockbrokers

AN opportunity for stockbrokers to have clients' portfolio valuations prepared on a data processing service basis by electronic machines was announced last week by Mr F. J. Nash, assistant managing director (Sales), of International Computers and Tabulators Ltd, at the official opening at City Gate House, London, E.C.2, of the company's latest punched card data processing bureau.

The portfolio valuation service will enable even the smallest stockbroking firm to provide its clients with accurate, up-to-date and frequent appraisals of the state of their investments. Only a minimum of elementary punched-card equipment would need to be installed on the broker's own premises; the detailed calculations

would be done on electronic machines in the service bureau, thus saving brokers much onerous and costly manual work.

Mr Nash also drew attention to the facilities offered to company registrars by the I.C.T. dividend service bureau, which undertakes the calculation of gross dividends, income tax and net dividends and the printing of this information on dividend warrant forms. The dividend bureau was first established in 1935. Its annual output of dividend warrants for the various public companies who are its customers exceeds one million.

Stockbrokers and other businesses in the City of London will also soon be able to use the services of a similar bureau due to be opened next September by N.C.R. Electronics, in one of the new City office buildings.

A National-Elliott 803 with magnetic film file will be used initially. But before long this will be augmented by the new N.C.R. 315 system, which has a random-access memory of unlimited capacity and is thus particularly suited to this kind of service work.

Among the jobs which the bureau will perform for clients are the evaluation and analysis of portfolios and the calculation of stock price statistics for investment analysts.

Computer Manufacturers' Association

COMPANIES in Europe which develop, manufacture and market data processing machines have established the European Computer Manufacturers' Association (E.C.M.A.) with headquarters and secretariat in Geneva.

The object of the Association is to further the adoption of data processing standards for the benefit of users, the public and the industry itself. Its primary purpose, in co-operation with national and international standards organizations, is to secure inter-company co-operation throughout the industry which will enable European manufacturers to offer better products and services at less cost. This is to be accomplished through the establishment of systems and equipment compatibility, the development of common systems languages and in other appropriate fields of activity. Standardization in these areas will furnish a basis for passing information from one data processing system to another, for performing similar processes on differing machines and for reducing the effort needed to prepare programmes for the operation of data processing equipment manufactured by member companies.

Already three technical working committees are in being. These are concerned with (a) Codes representing characters for use in computer 'input' and 'output'; (b) common programming languages; (c) diagrammatic and symbolic representation of processes. A fourth committee, now in formation, will deal with character recognition.

The first President of E.C.M.A. is Mr C. G. Holland-Martin, research director of International Computers & Tabulators Ltd. M P. Dreyfus, Compagnie des Machines Bull, is the Vice-President.

Midland Bank's new Computer Centre.

THE Midland Bank recently placed an order with The English Electric Company for a KDP 10 electronic computer system, which will service all the current accounts – amounting to well over 100,000 – of sixty branches in the London area. The computer, which will cost about £250,000, will be operational during the autumn of next year.

The basic principle of the system is the maintenance of all the branch current account records centrally on magnetic tape, and ledger posting from the tape files according to the information fed in daily from the branches.

It is intended to set up a computer centre in the West End of London, and to equip each of the bank's sixty branches with accounting machines fitted with special attachments to produce punched paper tape. The paper tapes carry all branch data for feeding into the central computer at the rate of some 1,000 characters a second – equivalent to about forty cheques or credit vouchers every second. Coupled to high speed printers producing print at 600–900 lines a minute, the computer will sort and 'post' in only four and a half hours the information fed in from the sixty branches. Customers' statements and copies for the bank's records will be produced in one operation. The bank estimates that a staff of from 10–12 will be required at the computer centre to control the work of the system. Planning and programming of the system is being undertaken by the research section of the Midland Bank's machines department, working with staff from English Electric, who will be attached to the bank for several months.

Computer for Bristol College of Science and Technology

THE Bristol College of Science and Technology is to equip its department of mathematics with a National-Elliott '803' electronic digital computer. It will be the first educational establishment in the south-west of England to acquire a computer, and the first in the country to have a machine which offers such a wide range of facilities.

The '803', which will be installed during October this year, has provision for both punched-tape and punched-card input. It includes magnetic film file storage and an automatic floating-point arithmetic unit. The installation will enable students to acquire skill in all aspects of computing work and will provide members of the staff with a system fully capable of handling the wide range of computational tasks which they are likely to encounter in the course of their work.

JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SW1

Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS LOWE, BINGHAM & THOMSONS, of Japan, announce the retirement of Mr D. J. BENSON, F.C.A., on June 30th, 1961. The firm will be carried on by the remaining partners, Mr A. R. FORSYTH, C.A., and Mr E. J. V. HUTT, F.C.A., in association with Mr S. FUSHITA, C.P.A. (Japan), and Mr N. TOHMATSU, C.P.A. (Japan).

MESSRS D. A. OWEN & Co, Chartered Accountants, of 21 The Parade, Leamington Spa, announce that they have admitted Mr R. F. HUGHES, A.C.A., into partnership as from July 1st, 1961. Mr HUGHES has been employed by the firm for some time. The style and address of the firm remain unchanged.

Appointments

Mr D. N. Walton, F.C.A., has been appointed chairman of British Glues & Chemicals Ltd.

Mr C. R. C. Fryers, F.C.A., and Mr R. Simpson, F.C.A., directors of Hunslet (Holdings) Ltd, have been elected to the board of Materials Handling Equipment (G.B.) Ltd which was recently acquired by Hunslet.

Mr N. R. R. Brooke, C.B.E., F.C.A., J.P., a director of Guest, Keen & Nettlefolds Ltd, and G.K.N. Steel Co Ltd, has been appointed to the local board of Lysaght's Scunthorpe Works Ltd, a branch of G.K.N. Steel Co Ltd.

Mr Thomas Guiney, B.A., A.C.A., has been appointed secretary and research director of the Economist Intelligence Unit of Ireland Ltd.

Mr Laurence J. Culshaw, F.C.A., and Mr Jocelyn F. T. Nangle, F.C.A., have been appointed auditors of the accounts of the British Transport Commission for the year ending December 31st, 1961.

Mr John M. Howard, F.C.A., M.P., has been appointed a director of B.E.T. Omnibus Services Ltd.

Mr Geoffrey Smith, F.C.A., administration manager of Oxo Ltd, has been elected finance director of the company.

Mr Kenneth G. Settle, A.A.C.C.A., secretary and accountant of Henry Russell & Co Ltd, has been appointed a director of the company.

NEW PUBLIC TRUSTEE

Mr Charles R. Sopwith, F.C.A., has been appointed by the Lord Chancellor to succeed Sir Pridham Baulkwill, the Public Trustee, who retires on September 30th after more than forty years in the Public Trustee's Office.

Mr Sopwith, who is aged 55, served his articles with Sir Roland Jennings, F.C.A., and was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1928. He later qualified as a solicitor and has been a principal Assistant Solicitor in the Solicitor's Office of the Board of Inland Revenue since 1956.

OBITUARY

Vernon William Grosvenor, C.B.E., LL.B.(Hons.) F.C.A., J.P.

It is with regret that we record the death at the age of 72 at his home in Sandown, Isle of Wight, of Mr Vernon William Grosvenor, C.B.E., LL.B.(HONS.) F.C.A., J.P., formerly chairman of the Birmingham Regional Hospital Board.

Awarded honours in the Society's Final examination in 1920, Mr Grosvenor was admitted to membership of The Society of Incorporated Accountants in the same year. He was elected to fellowship in 1930 and in 1958, following integration, he became a fellow of The Institute of Chartered Accountants in England and Wales. From 1944 to 1949 he served as President of the Birmingham and District Society of Incorporated Accountants.

Mr Grosvenor served as a Conservative member of Birmingham City Council from 1936-45 and was closely connected with the affairs of health and hospital services in Birmingham. These included chairmanship of the Public Health Committee from 1938-45; the Birmingham Hospital Saturday Fund from 1942-60 and the board of governors of the Birmingham Accident Hospital from 1945-48, of which he had been a founder member since 1941. He became a member of the Birmingham Regional Hospital Board in 1947 and served as its chairman from 1951-57. He was also a member of the General Nursing Council for England and Wales from 1950-58.

Mr Grosvenor became a Justice of the Peace in 1943 and was awarded the C.B.E. in 1955.

BADEN-POWELL HOUSE

'Silver Wolf' award to Sir Harold Gillett

When Her Majesty the Queen opened the new Scout, Centre and Hostel for the scouts of the world, at Queen's Gate, SW7, on July 12th, Sir Harold Gillett, BT., M.C., F.C.A., as chairman of the Baden-Powell House Committee which had been responsible for the building of Baden-Powell House, had the honour of thanking Her Majesty on behalf of the Scout Movement for opening the building.

On the following day, at the conclusion of the annual meeting of the Council of the Boy Scouts' Association held at Baden-Powell House, with H.R.H. the Duke of Gloucester, President of the Boy Scouts' Association in the chair, Sir Harold was invested by the Chief Scout, Sir Charles Maclean, BT., with the award of 'The Silver Wolf' in recognition of services of the most exceptional character to the Scout Movement.

Sir Harold was at one time District Commissioner for the Harwich area of Essex and has for a number of years been a member of the Committee of the Council of the Boy Scouts' Association - on the Finance Section.

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**LONDON AND DISTRICT SOCIETY OF
CHARTERED ACCOUNTANTS****Members' Dinner**

The annual dinner for members of the London and District Society of Chartered Accountants will be held in the Hall of the Worshipful Company of Carpenters, Throgmorton Avenue, London, EC2, on October 26th.

Members will receive individual notice towards the end of September; meanwhile they may care to note the date in their diaries.

**INTERNATIONAL BUREAU OF FISCAL
DOCUMENTATION**

The annual report for 1960 of the International Bureau of Fiscal Documentation, of Amsterdam, records another satisfactory year. With the increasing development of European economic integration the activities of the bureau have grown very considerably and the report states that the bureau has been consulted to an even greater extent on problems of foreign tax law. During the year information was supplied – often in the form of detailed opinions – to business firms and their advisers, to Governmental agencies and international organizations in more than one hundred different countries and territories.

It is interesting to note that the bureau is preparing on behalf of the O.E.E.C. a study on the tax treatment of research which is to be published later this year. A new fortnightly review in English, entitled *European Taxation*, containing articles on taxation in all European countries, together with the latest information about tax reforms or proposals for reform, has now been introduced by the bureau.

Mr Douglas A. Clarke, LL.B., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales is a member of the Council of Protection of the Bureau.

ANNOTATED TAX CASES

Part 2 of Volume XL of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is published today and contains reports with notes on the judgments of the following cases: *Regina v. Great Yarmouth General Commissioners ex parte Amis* (Q.B.D.); *Cansick (Murphy's Executor) v. Hochstrasser* (Ch.D.); *Prince v. Phillips* (Ch.D.); *Jeffery v. Rolls-Royce Ltd* (C.A.); *Henty & Constable (Brewers) Ltd v. Commissioners of Inland Revenue* (Ch.D.); *Ridge Nominees Ltd v. Commissioners of Inland Revenue* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 50s post free; the publishers are Gee & Co (Publishers) Limited, 27–28 Basinghall Street, London, EC2.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 31ST, 1886

A Weekly Note

IN face of the recent discussion on the point and the common sense reading of the Charter, the use by a member of the Institute of the letters "F.I.C.A." is somewhat regrettable. There is a just and decided wholesale contempt amongst the general public for a string of unfamiliar letters, and the member after whose name the letters above-mentioned appeared in the newspapers recently as auditor of a Company, might do well to use the proper letters, and prevent any possibility of confusion with such societies, or rather companies, as that of the Incorporated Society of Accountants. The point is a small one, but really if odd members of the Institute persist in these eccentricities some steps must be taken to effectually stop them. The letters "A.C.A." and "F.C.A." will, let us hope, some day count for a little in the eyes of the commercial community; such variations as that mentioned will tend to bring them into contempt.

SOUTH WALES STUDENTS**Thirty-seventh Annual Report**

The thirty-seventh annual report of the South Wales and Monmouthshire Chartered Accountant Students' Society records a total membership at December 31st, 1960, of 236.

As in previous years, lectures were held in each of the periods prior to the May and November examinations and the Saturday morning lectures were continued. Attendances at these, however, were very disappointing and it was therefore decided to formulate a new lecture plan for Saturday mornings.

There was a record attendance at the tenth annual dinner and dance held at *The Park Hotel*, Cardiff, in December. Sporting activities included rugby football, cricket, tennis, golf and hockey matches.

The Committee received with regret the decision of Mr Bernard E. Brown, K.S.T.J., F.C.A., to retire as President of the Society. He is succeeded by Mr Graeme M. Metcalf, F.C.A.

NEW OFFICE EQUIPMENT

In our feature 'New Office Equipment' in last week's issue, the price of the *Imperial Desk Companion* typewriter was incorrectly stated. The price of the *Desk Companion*, which has a tabulator as standard equipment but not a decimal tabulator, is £38 10s.

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The Revenue on the Carpet

FRANZ KAFKA, in his novel *The Castle*, tells the story of a village whose inhabitants are dominated by the mysterious bureaucratic activities of an army of officials operating in the lofty castle. Many of the outward manifestations of this bureaucracy are comic and ludicrous (there are the familiar examples of a man's file being lost for months) but the cumulative result is terrifying and tragic - nothing less than a sustained nightmare.

It would be absurd to seek a close parallel between that mist-hidden castle and the housing of the British tax system, whether one thinks of the graceful outlines of Somerset House or the squat hutments at Hinchley Wood. But some similarities there are; and it is hardly surprising that taxpayers should sometimes speculate about what goes on in those buildings: what liaison there is between one branch and another; why one company is suddenly chosen for surtax direction and not another; why a particular taxpayer is suddenly asked by the Inquiry Branch if he is quite sure that his returns are really correct.

Most practising accountants come into professional contact with the Inland Revenue, so that to them the mysterious processes of the department are of special interest. Of particular moment, therefore, despite its prosaic title, is the Blue Book published last week and briefly mentioned in our last issue - *Seventh Report from the Estimates Committee (together with the Minutes of Evidence taken before Subcommittee C and Appendices)*, Session 1960-61.¹ More informative, though not more exciting, is the laconic sub-title *Inland Revenue*. The contents, however, present what is probably the most revealing picture of that unique Department that has ever been made public. The report itself is not particularly informative - although the comments of the committee are significant - but the memoranda of officials and organizations, and still more the oral answers of witnesses from the Department are very informative indeed.

The committee were concerned about the cost of collection of the Revenue duties. This has risen over the last decade from 1.1 per cent to 1.48 per cent and consists mainly in remuneration and superannuation. Increased complexity of taxing measures is of course a factor, so that after the nightmare complications of the 1960 Finance Act one can expect the ratio of cost to collection to rise still further. The committee doubt whether this aspect is sufficiently considered when tax changes are introduced - a point which has been made repeatedly in these columns. The committee also doubt whether the Department devotes enough

¹ H.C. 245, H.M.S.O. 135 net.

effort to determining the administrative costs of different taxes, and they recommend that the Inland Revenue should investigate the possibility of a wider application of costing methods and should pay more attention to probable administration costs of new taxation proposals. It is perhaps a pity that this recommendation did not come soon enough to stifle the short-lived and costly excess profits levy.

In this general context of collection costs, it is not surprising that Schedule A has been singled out for special attention. Here the percentage is nearer 4 per cent – about three times the average. THE CHAIRMAN OF THE BOARD, in his oral evidence, refuted public allegations that there was further wide scope for maintenance claims from taxpayers who were not aware of their rights. He said that many owners did their repairs on a 'do-it-yourself' basis and their expenditure was therefore within the statutory allowance. This, notwithstanding that in cases of owner-occupiers the assessment, and therefore the repairs allowance, was on a pre-war scale. Little wonder that the CHAIRMAN should observe: 'At the moment the thing has become completely unreal in every respect.' As the chairman of the committee commented, the only realistic thing about Schedule A is the actual cost of its collection.

That Schedule A should cost so much is easy enough to understand. Although the concept of taxing beneficial occupation as real income is swallowed, it seems that no Government since the war has had the courage to make the assessments on a realistic basis. As regards rented property, no matter how many houses a single taxpayer may have – whether the taxpayer is a local authority, a property-owning company, or the local squire – each 'hereditament' has to be separately assessed, even though the returns are made and maintenance claims rendered, on an omnibus basis. A company which owns and occupies many different properties must pay tax on each one and then make a corresponding deduction for each of them in its profits computation. It is rather like the shepherd's advice to count the sheep's legs and then divide by four.

Another matter to which the committee directed their attention was the machinery of assessment. The value of local unpaid General

Commissioners as a shield between the taxpayer and bureaucracy is unquestioned. But they can exercise this function in appeals; there is no point in Schedule D assessments being formally 'made' by the Commissioners when they really take no part in the process beyond attaching their signatures to books of assessments. It was revealed in evidence to the committee that about 500 inspector-days per year are expended on this archaic survival.

The committee recommend that inspectors should make the Schedule D assessments. A similar recommendation is made in regard to profits tax assessments which, although negotiated by the local inspector, have to be sent to head office to be 'made'. Taxpayers can of course elect to make returns to the Special Commissioners and be assessed by them, presumably on the assumption that this conceals their affairs from the local tax office. But it seems that here, too, the real work is done in the local tax office; so the whole thing is somewhat illusory. The official witness said the whole object was to conceal the taxpayer's affairs from the General Commissioners, but as the latter do not hear about the taxpayer unless he makes an appeal to them, the election seems to be pointless.

The committee think that the Board of Inland Revenue should examine ways and means of avoiding the concentration of work on Schedule D assessments in November and December in each year and of reducing the number of provisional assessments. In this they were evidently much influenced by evidence received from The Association of Certified and Corporate Accountants and from the Income Tax Payers' Society. Certainly accountants would gain considerably if there were less bunching of assessment work. THE CHAIRMAN OF THE BOARD said that about a million taxpayers employed agents; the rest filled in their own forms. Asked if there were any difference as regards accuracy between an individual filling up his own return and one employing a professional adviser, the CHAIRMAN said he thought the Inland Revenue were better served by the professional adviser – an impressive tribute from an unimpeachable source to the accountancy profession.

Another interesting observation by THE CHAIRMAN OF THE BOARD was on the subject of entertainment expenditure. He said the Inland

Revenue had the power to get the facts but the difficulty was to differentiate on the scale. If a taxpayer said he had had to take a customer to *The Savoy*, there was nothing the Revenue could do about it even though they might think a much less lavish form of entertainment would

have served. Can it be that Revenue officials contrast this world of *Savoy* lunches with the dowdy brown paint of tax offices and the saucerless teacups on cheap tin trays gracing their public counters to which reference was made in the proceedings?

Summary of the Committee's Recommendations

- (1) The Board of Inland Revenue should investigate the possibility of a wider application of costing methods to the work of the Department with a view to arriving at reliable figures of the cost of collecting individual taxes;
- (2) The Board in considering new proposals for taxation should pay greater attention to the probable cost of collection;
- (3) The method of collecting Schedule A of income tax should immediately be reviewed with the object of reducing its cost;
- (4) The Board of Inland Revenue should examine the proposals submitted to the Subcommittee by the Association of Her Majesty's Inspectors of Taxes with a view to strengthening the Inspectorate;
- (5) The Board should give consideration to methods of strengthening the Inspecting Officer system, as well as the Inspectorate itself, if necessary by increasing the number of officers;
- (6) Inspectors of Taxes should be empowered to sign and allow all assessments of liability to income tax and the assessment functions of General Commissioners should be abolished;
- (7) The Board of Inland Revenue should examine ways and means of avoiding the concentration of work on assessments in November and December of each year and of reducing the number of provisional assessments;
- (8) The assessment of liability to profits tax should be transferred to local Inspectors of Taxes;
- (9) The Board of Inland Revenue should within the next eighteen months re-examine the possibility of decentralizing surtax;
- (10) The Board should concentrate the work of the Control Section of the Collection Division and should incorporate the existing staff of the Cashier's Section in the appropriate Inspectors' offices;
- (11) The Board should consult with employers and their associations as soon as possible in order to put into effect schemes for setting-up further London Provincial Offices;
- (12) The Board should investigate the possibility of introducing mechanization on a far wider scale;
- (13) The Board should examine the possibilities of simplifying the explanatory memoranda and pamphlets at present issued and of extending the practice of issuing explanatory leaflets;
- (14) The Board should review both the content and design of the forms which are issued to taxpayers with a view to achieving greater simplicity and clarity;
- (15) An early opportunity should be taken of amending the law to allow taxpayers to elect to have notices relating to taxation sent to their agents;
- (16) The Board of Inland Revenue should consider ways and means of reducing the high cost of collection of tithe redemption annuities.

Muffled Wisdom

PUBLIC education in economic matters has, judging by the reception accorded the Government's latest policy, not been rapid during the post-war period. Partly for this reason the appointment in August 1957 of the Council on Prices, Productivity and Income in the hope that some generally acceptable facts about the British economy could be found, was a sensible move. Unfortunately, the reception accorded the first report, more particularly the reaction of the T.U.C., rendered largely nugatory any further work by the Council. In 1960 a newly-constituted Council comprising LORD HEYWORTH, SIR HAROLD EMMERSON and PROFESSOR E. H. PHELPS BROWN was appointed with the original terms of reference.

The Council's fourth report, published last Monday, accepts the criticism that the British economy has not done as well during the past decade as it might, first because 'production has not risen enough' and second, because 'exports have not risen enough'. Both shortcomings, states the report, have had a common cause in inflation, which 'has weakened the forces that normally make for increased efficiency. By making the home market easy to sell in and by raising costs, it has weakened the will and ability to export'. The Council's analysis of Britain's economic performance over the past decade leads them to the conclusion that 'much of the trouble is that management is living in a "cost-plus" world' with its home market insulated against foreign competition by high tariffs. The result is that 'the pressure of trade unions for higher pay no longer obliges management to keep costs down by raising efficiency', instead manufacturers have 'come to rely on covering higher costs sooner or later by higher prices without loss of sales. In such a frame of mind, keeping deliveries up is more important than keeping costs down; in negotiations about pay the rise that will bring a settlement does not seriously threaten profits, but a strike does'.

The Council recommend that a cut in tariff protection is needed to make profits less easy to come by. They stress that '*in the long run* greater overseas competition will not weaken the balance of payments, but strengthen it' by stimulating

efficiency in the domestic economy. On the question of resale price maintenance, the Council content themselves with the observation that existing legislation has a role to play in keeping full employment without inflation. Recognizing that internal economic policy cannot be divorced from the balance-of-payments situation, the report states the vital conclusion that 'an exporting country is not entirely master in its own house'. In other words, changes in world demand must be met by a contraction of some firms and expansion of others; by the movement of redundant labour and new capital into firms with large order books and vacancies. If firms will not export because it is more profitable to concentrate on the domestic market, then they must either be directed or coerced through market forces to change their policy.

The Council's report is more tactful than was the recent O.E.E.C. report on the problem of rising prices¹ when discussing the subject of wage negotiation and arbitration in Britain, although the Council come to the same conclusions. Their major policy recommendation in respect of wages also follows the O.E.E.C. report in advocating the need for forward planning and economic projections to assess the potential and actual increases in productivity. There is, observe the Council, 'no need to stop wages rising; it is essential, however, to see that the increase does not exceed the rise in productivity'. Given these economic data (always assuming they are accurate), the Council believe that they would indicate 'the limits within which movements of pay and profits must lie if they are to be consistent with stable prices'. Any increases beyond those limits would run the 'risk of being inflationary or gaining at the expense of others'. If pay and profits were to rise more than productivity, then the Government should, state the Council, 'take steps promptly to check spending'. To this end they advocate variations in direct taxation instead of MR LLOYD's new fiscal regulators which will, they say, 'give the economy a push in just the opposite direction to the one needed'.

¹ See *The Accountant*, June 17th, 1961, page 741.

'Know-how' Reconsidered

by A BARRISTER-AT-LAW

IN two earlier articles, 'When is "Know-how" Taxable?',¹ and 'More about "Know-how"' ² the writer discussed the sale of 'know-how' in relation to tax following the decisions in *Moriarty v. Evans Medical Supplies Ltd* (36 A.T.C. 277; 37 T.C. 540) and *Jeffery v. Rolls-Royce Ltd* (39 A.T.C. 351) respectively.

In the *Evans* case several different opinions were expressed in the House of Lords but, on the majority view, the 'know-how' in the case was held to be exempt from tax. In the *Rolls-Royce* case Pennycuik, J., felt himself bound by the majority judgments in the Lords, but his decision has now been reversed by the Court of Appeal ([1961] 2 All E.R. 469), which has distinguished the *Evans* case. The position is rather more difficult to understand because the 'know-how' in the two cases was similar in some respects, the difference being mainly in the form of the sale agreement and the number of transactions involved.

Facts of the *Rolls-Royce* Case

In 1946 the company, at the wish of the British Government, entered into an agreement with the Republic of China under which it undertook to supply complete drawings and manufacturing and engineering data and information necessary to enable engines of a particular type (or substituted type) to be manufactured by the Chinese; and to provide full information from time to time with regard to improvements and modifications in the manufacture and design of the engines. The company also agreed to receive into its works trainees from China and to release competent members of its staff to undertake employment with the Chinese. The agreement was to be of five years' duration, with an option to the Chinese to extend it for a further five years. The company received a specified royalty on all engines and parts of engines manufactured under the agreement, but the agreement also provided for the payment of a lump 'capital sum' of £50,000 as 'consideration for the rights granted'. In the following six years the company entered into similar agreements with the Governments of

or companies in France, the United States of America, the Argentine, Belgium, Australia and Sweden. These were all countries which it could not hope to penetrate for the sale of its engines by any other method.

In his annual statements to shareholders, the chairman of the company made several references to the demand for licences to manufacture the company's engines and to the royalties resulting. The company appealed against assessments to income tax, profits tax, excess profits tax and excess profits levy for a number of years on the ground that the lump-sum payments under the several agreements were payments of a capital nature. For the purposes of the appeal the agreement of 1946 with the Republic of China was treated as a typical agreement.

Views of Court of Appeal

Holroyd Pearce, L.J., said that probably the major part of the lump-sum payment of £50,000 was intended to be in respect of the transfer of technical knowledge but, nevertheless, the agreement was one indivisible whole. The payment was not allocated to any particular benefit under the agreement but covered the provision of technical knowledge, plans, the licence to manufacture engines and the facilities for interchange of staff. The words 'capital sum' in the agreement were 'a mere label attached . . . with an eye, no doubt, to tax considerations' (per Lord Greene, M.R., in *Rustproof Metal Window Co Ltd v. C.I.R.* (26 A.T.C., at page 273; 29 T.C., at page 271)), but it was conceded by the Crown that, if on one occasion only the taxpayers had sold their technical knowledge for a lump sum, they would be selling a capital asset and the receipt of that sum would be a capital receipt.

His lordship said the Special Commissioners had found that the company, in the course of its business, had acquired a vast store of knowledge and information relating to its secret processes of manufacture which represented a fixed capital asset of the company's trade; but that it had never been any part of its policy to make inventions and discover secret processes with a view to the earning of profits by realizing rights in those inventions and processes.

¹ *The Accountant*, July 12th, 1958.

² *The Accountant*, August 6th, 1960.

The Commissioners, however, had considered the China agreement as if it had stood alone, but it did not stand alone. It had to be considered in the light of surrounding circumstances, and subsequent events might also throw light on it. The agreements were for periods of up to ten years and envisaged the continuance of the arrangements after the expiry of the contract periods. The facts created a strong impression that in territories where the taxpayers could not hope to sell their engines they were pursuing a wise policy of allowing local manufacture from which they would receive the benefits of advertisement, lump sums and royalties. This was not in substitution of the policy of selling their own engines in territories where they could do so, but a collateral and supplementary method of trading where they could not do so.

It was clear that the policy of issuing licences for royalties was deliberate and continuous, and that the dissemination of technical knowledge to the licensees was a desirable or even an essential part of the issue of licences. But this imparting of technical knowledge was only one of the considerations for the payment of the lump sums and did not take those sums out of the category of trading when the rest of the agreements was devoted to producing trading receipts.

Secret Knowledge

Continuing, Lord Justice Pearce said that the knowledge sold in the case was not some secret of permanent value sold by an owner who was transferring or terminating his business but was, in the main, the transient by-product of advancing engineering science. It accrued automatically from the taxpayers' business of manufacture and in a comparatively short time was superseded and lost its value. It was ever-growing, ever-changing, and was the kind of knowledge which could easily merge its character of a fixed asset into that of a trading asset.

The knowledge which was secret was the more transient because it became more quickly obsolete, the knowledge which was not secret was the valuable practical experience of years, but it partook less of the nature of a fixed asset and could find no place in any balance sheet. So far as the lump sums were paid for the imparting of knowledge, they were sums regularly received as an ingredient in the company's policy of making manufacturing agreements to secure royalty revenue. To such agreements the disclosing of technical knowledge was a necessary adjunct but it was a means rather than an end.

Fixed Capital Asset

Donovan, L.J., said the expression 'fixed capital asset' conveniently described buildings, machinery and licences which a trader used to produce the goods he sold, but it could be misleading when applied to knowledge, skill and experience. Factory premises were not likely to become obsolete within a few years, but this might be true of engineering skill and knowledge in the field of aero engines, since the process of research and new discovery was unending. A company was served by its staff, and it was in the brains and hands of its staff that knowledge, skill and experience resided. A company could make 'know-how' available to a third party and it was the ability to do this (and, of course, the ability to use the knowledge in its own business) which constituted the company's asset.

The systematic and repeated exploitation of the *Rolls-Royce* company's knowledge, skill and experience; the renewal clauses in the various agreements, and the licensing of manufacture in countries where direct sales were not possible left no doubt that the lump sums were trading revenue of the company. He would reach the same conclusion even if the large expenditure on research and experiment undertaken by the company, which contributed so much to its knowledge and skill, had not been allowed as a revenue expense when computing chargeable profits.

Comparisons

Upjohn, L.J., who delivered the judgment at first instance in the *Evans* case, said in both that case and the *Rolls-Royce* case the subject-matter of the transaction was in part a disposition of 'know-how', but that there was a difference in the nature of the 'know-how'. In the *Evans* case it consisted, not in secret medical compositions, but in secret methods of preparation of known products and in methods of storage and packaging particularly in hot countries, which would probably continue to be applied for a long time.

In the *Rolls-Royce* case, on the other hand, the transient and changing character of the 'know-how' dealt with by the company made it more nearly akin to a trading asset. However, the fundamental difference between the two cases lay in the manner in which the *Rolls-Royce* company had dealt with the disposal of its knowledge and experience in the manufacture of aero engines. In the one case the transaction was isolated and special; in the other it was part of a deliberate policy of licensing the manufacture of engines

where it was difficult or impossible to export engines of home manufacture.

Despite much conflict of judicial opinion in the *Evans* case, it was ultimately decided that the lump-sum payment of £100,000 in that case was paid for the promises contained in Part I of the agreement (which related, in the main, to the provision of drawings, designs and plans, and technical and other data and 'know-how' necessary for the establishment, erection and installation of a Government sponsored factory in Burma for the manufacture of pharmaceutical and other products.

In the *Rolls-Royce* case the lump sums were paid not only to secure 'know-how' but for other benefits as well (such as a licence and facilities for the interchange of staff). (It might also be added that in the *Evans* case the provision of services was dealt with as a separate item in Part II of the agreement and was the subject of an annual fee).

Lessons

It is readily understandable that repeated sales of an asset of the nature of a capital asset may convert it into stock-in-trade, and render it liable to tax. It is equally clear that if the same agreement or, where there are different parts to an agreement, the same part of the agreement, covers technical knowledge, the grant for a

licence and a provision for services or the interchange of staff, it will be more difficult to contend that the agreement or part is one relating exclusively or mainly to the sale of 'know-how'.

What is still difficult to discern is precisely what is 'know-how' and what is not. The Court of Appeal (but not the House of Lords) in the *Evans* case drew a distinction between 'secret knowledge' proper and the 'fruit of manufacturing experience'. From the judgment of Holroyd Pearce, L.J., in particular, in the *Rolls-Royce* case, there would seem to be a distinction between secret knowledge which is comparatively permanent (such as the secret knowledge in the *Evans* case) and secret knowledge which is transient (as in the *Rolls-Royce* case); and (though this may not necessarily have any bearing on the tax position) a distinction between transient secret knowledge and valuable practical experience which, though less transient, partakes less of the nature of a fixed asset.

Indeed, as Pennycuik, J., said at first instance in the latter of the two cases, it may be that the dividing line between secret processes and 'other information' has yet to be finally drawn. Meanwhile, draftsmen of agreements for the sale of 'know-how' would do well to keep both cases prominently in mind, for it seems that success or failure in the tax field will owe something at least to the draftsman's art.

The Accounting World

NETHERLANDS

The Netherlands Institute

WITH the new list of members of The Netherlands Institute of Accountants for 1961, we were glad to receive a copy of a booklet containing a translation in English of the principal articles in the Institute's constitution and rules, together with a short précis of its development – an exercise which, we suggest, might be emulated with advantage in other quarters.

Founded on January 1st, 1895, the Netherlands Institute now has 1,617 members, 51.6 per cent of whom are in public practice, 37 per cent are in public service and industry, and 11.4 per cent are retired. There are at present 2,710 registered students. During the last five years 455 student members have been admitted to the Institute.

As in Great Britain, the accountancy profession as a whole in the Netherlands is not 'registered' though, as the booklet says, in the course of years 'the desig-

nation "member of the N.I.v.A." has acquired a significance which provides a means of discrimination for the profession, for the Government and for Netherlands society in general'.

Following the appointment of an advisory committee in 1954 on the question as to whether the profession should be legally regulated, a Bill was introduced into the Netherlands Parliament in May 1959 relating to the establishment of an Accountants' Register. The Bill largely incorporates the proposals of the advisory committee.

UNITED STATES

Reporting on Management Efficiency

THE suggestion that the accounting profession might consider using its great analytical ability and insight into the management processes to take the place of the rapidly vanishing substantial minority shareholder, as a check on management efficiency, was put forward in a letter which appeared in a recent

issue of *The Journal of Accountancy* (New York).

An editorial on the subject deprecated as premature any use of the term 'management audit' for any such investigation by independent C.P.A.s, since it would connote a subjective element which they rightly reject. Nevertheless, it was considered possible for objective standards to be developed to enable the independent C.P.A. to extend the scope of his examination and opinion to cover such matters as adequacy of plant maintenance, comparability of research expenditures with those of other companies, advantages and disadvantages of different financial structures, etc.

While the C.P.A. should never accept responsibility for management decisions, a profession which looks to its future rather than to its past should be exploring the possibilities of developing objective standards for the expression of a public opinion on at least some aspects of management performance. To suggest undertaking this as a duty at present would, however, undoubtedly be premature.

As a first step the auditor might attempt to differentiate more sharply between profits or losses attributable to policies and operations under management control and those beyond such control. As a long-range goal, C.P.A.s might aim at developing objective and even generally accepted techniques for separating, in the income statement, the effects of inflation or deflation. This would be a long step in the direction of helping third parties to evaluate management performance.

BRAZIL

The Abacus Society

THE annual report of The Abacus Society of São Paulo, presented at the eighth annual meeting, records a total membership of the Society at March 31st of forty-five—twenty-two being members of the English Institute, five of the Scottish Institute, one of the Irish Institute and five of The Association of Certified and Corporate Accountants. During the year, seven members relinquished their membership of the Society on leaving Brazil, six of whom returned to the United Kingdom and one to the United States. In partial compensation, five new members were registered, four with British qualifications.

Regular monthly meetings were held during 1960 when addresses were given on such subjects as 'Saving and economic development', 'Standard costing', 'Business computers' and 'The application of psychology in accounting'. The Committee comments in their report that the phenomenal industrial expansion which has and is taking place within Brazil has been largely financed out of inflation and this has 'wrought havoc' with orthodox accounting procedures and made nonsense of most of the financial statements and operating reports which accountants prepare. The Committee states that 'the profession as a whole is failing in its obligation to business

in not defining procedures for the compilation of sensible financial statements in communities of changing money values'.

The officers and committee members of the Society for 1961-62 are as follows:

President: Mr G. L. Bishop, A.R.A.N.Z.

Hon. Secretary: Mr C. E. G. T. Kirk, F.C.A., The Abacus Society, Caixa Postal 2922, São Paulo, Brazil.

Hon. Treasurer: Mr C. J. Cross, F.C.A.

Other Committee Members: Messrs R. H. Rogers, F.C.A., and G. H. Osborn, A.A.C.C.A. In addition, the Immediate Past President, Mr C. K. Atkinson, F.C.A., will serve as an *ex-officio* member.

SOUTH AFRICA

Foreign Capital

IN spite of repeated Government denials that any such step was contemplated, certain restrictions have been imposed on the repatriation of foreign capital. Foreign holders of South African securities who sell them in South Africa are no longer permitted to have the proceeds remitted outside the Republic, though the funds may be reinvested in other quoted securities. The authorities must have decided that failing any prospect of further capital inflow in the near future, they were obliged to take steps to conserve what capital remained. But the new restriction will inevitably lead to dealings in the blocked rand at a discount, which is perilously near to devaluation.

Residents of the Republic are now obliged to complete a return of all assets held in any other country on June 30th, 1961. This includes cash, deposits, stocks of merchandise, ordinary shares, fixed interest bearing securities, mortgages, capital balances due by branches, fixed property and other assets. The term 'resident' is understood to cover not only nationals of the Republic but also foreign nationals who are domiciled in South Africa.

NEW ZEALAND

1961 Budget

THIS is not a year in which we can afford 'substantial tax concessions', said the New Zealand Finance Minister, Mr Lake, when he introduced his Budget in Wellington on July 20th. The total tax reductions were estimated to cost only £5 million, mainly in the reduction of death and gift duty rates. The deductible tax allowance for farm development is being extended and a 20 per cent initial depreciation allowance is to be given for farm workers' houses and other employer-built houses. Where a company is one in which the public is 'substantially interested' the excess retention tax on it is to be discontinued. The existing £30 exemption from tax on Post Office, National Savings and Trustee Savings Bank deposit interest is to be extended to all interest. There are to be some stamp duty reductions. Mr Lake warned that if the steps taken to check inflation proved inadequate the Government would apply stronger measures.

Surtax and Companies — II

by J. S. HEATON, F.C.A.

Powers of Special Commissioners to Obtain Information

SECTION 250 gives power to the Special Commissioners to give notice to a company which appears to them to be within Section 245, to provide:

- (a) a statement of the actual income from all sources for any accounting period;
- (b) a copy of the accounts for that period;
- (c) reasonable particulars as to the income and the manner in which it has been dealt with; and
- (d) a statement of the names and addresses of the members and particulars of their respective interests. This requirement is described as 'for the same period' and would cover details of any persons who were members at any time during that period.

Failure to comply with the notice, without reasonable excuse, within the time specified therein, brings liability to a penalty not exceeding £250, or £500 in case of fraud. (Section 47 and Sixth Schedule, F.A. 1960). In default of a satisfactory statement of actual income from all sources, the Special Commissioners may make their own estimate, without prejudice to the liability of the company for penalties.

54. The Special Commissioners may give notice to a member requiring him to state whether or not he is the beneficial owner of the shares registered in his name, and, if not, to give the name and address of such owner. Failure to comply within the time specified in the notice renders the member liable to a penalty not exceeding £250, or £500 in case of fraud (Section 47 and Sixth Schedule, F.A. 1960).

55. The Special Commissioners may require a company which appears to them to be within Section 245 to supply particulars of any bearer securities issued by the company; the names and addresses to whom they were issued; and the amounts respectively issued to each. Further powers are reserved, with a view to establishing the names and addresses of persons beneficially interested in bearer securities, under which information may be required from persons to whom the securities were issued and persons to, or through, whom they were subsequently sold or transferred. 'Securities' includes stocks, shares, bonds, debentures and debenture stock, and a promissory note or other evidence of indebtedness to a loan creditor of the company. Failure of any person, so called upon, to comply with a notice

within the time specified therein (or such further time as the Special Commissioners may allow) involves liability not exceeding £250, or £500 in case of fraud (Section 47 and Sixth Schedule, F.A. 1960).

Appeals against Directions

56. If a direction has been given under Section 245, notice of appeal may be given to the clerk to the Special Commissioners within thirty days. The Special Commissioners hear and determine the appeal and the income tax provisions relating to appeals against assessments are made applicable (Section 247 (1)).

57. If either the company or the Commissioners of Inland Revenue are dissatisfied with the determination of the appeal, they may, within thirty days, give notice to the clerk to the Special Commissioners, requiring the appeal to be reheard by the Board of Referees. This is the same Board as is appointed for the purposes of Section 287, I.T.A. 1952, which deals with rates of capital allowances (Section 255 (4)). The Special Commissioners must send to the Board of Referees any documents in their possession in connection with the appeal (Section 247 (2)). The Board of Referees have the same powers and authorities as the Special Commissioners in relation to the appeal, and their determination is final and conclusive, subject to statement of a case on a point of law for the opinion of the High Court (Section 247 (3)). A person nominated by the Commissioners of Inland Revenue is given the same powers in relation to appeals as may be exercised by an Inspector of Taxes in income tax appeals (Section 247 (4)).

Surtax Clearances

58. Section 252 is headed 'Protection for companies which transmit accounts to the Special Commissioners'. This is the familiar and controversial section under which a Section 245 company asks the Special Commissioners to consider the position of the company in relation to the provisions for making directions. The following rules must be observed:

- (a) The accounts for the year or period in question must have been adopted by the members in general meeting.
- (b) A copy of the accounts must be accompanied by a copy of the report (if any) of the directors for the year or period.
- (c) Such further information may be submitted as may be thought fit.

59. As to (a), it will be noted that the Special Commissioners have no authority to deal with draft

accounts, with a view to settling a reasonable distribution by way of dividend, but in exceptional circumstances they may be prepared to indicate a view in advance of formal adoption of final accounts.

60. As to (c), it is helpful on a first application, to give background information about the precise trade carried on by the company; a brief review of its history and development; notes of any relevant information about management; particulars of special plans for development, including approximate phasing of any major capital expenditure. It is helpful, also, to submit extracts from any minutes of directors which have indicated the considerations borne in mind from time to time in relation to distribution policy. Too often, private company decisions or policy are carried as personal matters in the minds of directors, without being recorded in the minute book.

Procedure

61. On receipt of accounts and other documents, the Special Commissioners must proceed to consider the position of the company in relation to Section 245. If they require further particulars they must call for them within twenty-eight days, and they must be supplied within a further twenty-eight days (or such extended period as they may subsequently allow). It is noted that the further particulars must be such as 'they may reasonably require'. In the absence of the further particulars within the original or extended time-limit, the Special Commissioners may proceed upon the information before them.

Consequences

62. The power of the Special Commissioners to take action under Section 245 shall absolutely cease and determine for the year or period at issue, unless they indicate to the company their intention to proceed. That intention must be intimated within three months of:

- (a) receipt of accounts and any other documents (if any); or
- (b) receipt of further particulars; or
- (c) expiration of time-limit for supplying further particulars.

63. Further, even when the Special Commissioners have intimated their intention to take further action, a notice under Section 250 (1), requiring information, and a direction under Section 245 must be given or made within six months of that intimation. A direction may, exceptionally, be made outside the time limit if it follows a notice under Section 250 (1) given within that period.

Finality

64. These provisions indicate finality, but questions are sometimes raised as to whether a clearance may be revoked. The word 'clearance' is not, in fact, used by the Special Commissioners. The ruling issued

is that the Special Commissioners propose 'to take no action (or no further action) under Section 245, on the information before them'. This wording seems much less final than the words of Section 252 (3). One attempt, later withdrawn, to revoke a clearance is known. This was due to an alleged misunderstanding in a reconstruction scheme about the incidence of income tax liability between old and new companies. Unless there is palpable withholding of material information, reopening would not seem possible under the Act. If this is to be relied upon, it is important that the precise rules in Section 252 should be followed. One point of some difficulty concerns proposed reconstruction, reduction of capital or distribution of realized capital profits. The Special Commissioners sometimes ask if any such transactions are contemplated. Should they be indicated in advance when applying for clearance? It is thought that this should be done, as the matter may be material in considering whether directors have acted reasonably in arriving at their decision on dividends. The probability of receiving an offer for the shares, or proposals for amalgamation or flotation seem less immediately relevant as these do not in advance affect the company itself and the distribution policy.

Practice

65. The view is increasingly held that annual applications should be made for clearance. Discretion will obviously be used. The small companies, clear at a cursory glance, can be ignored. If there would be little or no surtax liability even on a formal direction, the Special Commissioners would scarcely be interested. In the larger cases, it is satisfactory to know that matters are clear from a surtax direction standpoint. The fact that no communications have been received from the Special Commissioners may lull the directors into a false sense of security. Apart from delays caused by pressure of work, the Special Commissioners may well watch the pattern of a company's figures for a few years before declaring their interest. When this happens, it may be necessary to declare dividends, or supplementary dividends for some years at a time, as the price of avoiding formal directions, and it would clearly be preferable to avoid such an accumulated liability. Further, when reviewing a series of accounts, the Special Commissioners can hardly fail to be influenced by hindsight. Annual examinations would often lead to different, and more relevant, conclusions. Temerity may be relieved by explaining that, in theory, accounts reaching the Special Commissioners under Section 252 would have found their way in any case. Section 252 applications, in this sense, merely call for attention out of turn. Finally, there is no doubt of the advantage of clearances when an offer is received for the company's shares or for amalgamation or flotation. Submission at once of six years' accounts adds another cause of doubt and delay at an inconvenient time.

Indemnities

66. On a sale of shares or amalgamation, indemnities against surtax liability which might fall on a company under Section 245 directions are usually sought from vendors. When clearances have been obtained, the wording of these indemnities often seems unnecessarily restrictive. All that is necessary for periods covered by clearances is a covenant that all material disclosures have been made for the purposes of obtaining them.

Surtax on retrospective dividends

67. When it is agreed that, to avoid directions, dividends should be declared for years already passed, a letter is sent to the Special Commissioners by the company, embodying the intention to declare the agreed dividends and accepting consequential surtax liability thereon. Such dividends will be treated for surtax as part of total income for the year of assessment in which the accounting year or period ended, on the lines of an apportionment following a direction.

Statutory Declarations

68. Section 251 authorizes the directors of a company to make a statutory declaration when either:

- (a) a notice requiring particulars has been given by the Special Commissioners under Section 250 (1); or
- (b) a direction under Section 245 has been given in a case in which there was no prior notice for particulars.

69. The statutory declaration will state the facts and circumstances upon which they base their opinion that there has not been, and will not be, any avoidance of surtax through failure to distribute to the members of the company a reasonable part of its income for the year or period in question. If the statutory declaration is sent to the Special Commissioners within thirty days of the issue of the notice or the giving of the direction, no further action will be taken, unless they make a positive decision to proceed. Such a decision must be embodied in a certificate to that effect, and this must be sent to the Board of Referees together with the statutory declaration. A copy of both documents must be sent to the Commissioners of Inland Revenue who may, within thirty days of receipt, send a counter-statement to the Board of Referees. The Board must decide, in the light of the statutory declaration, the certificate from the Special Commissioners, and the counter-statement (if any), whether there is a *prima facie* case for proceeding. Their decision is final and conclusive. If it authorizes further action, the notice for particulars or the direction (as the case may be) is treated as dating from the notification of their decision by the Board to the company.

70. The procedure for appeals against directions laid down in Section 247 remains applicable.

71. Statutory declarations seem now to be rarely made, and it is difficult to enlarge on their practical advantages. Notwithstanding the 'all or nothing' character of Section 245, so much is settled by negotiations with the Special Commissioners, either on receipt of a notice for particulars or after application for clearance, that these additional and formal steps usually would be redundant. It is the practice of the Special Commissioners to remind the company or its advisers of the time limit for making a statutory declaration when issuing a notice for particulars under Section 250 (1). If it is desired that the Board of Referees should intervene, this is still possible if the result of an appeal to the Special Commissioners should be adverse to the company.

Companies in Liquidation

72. Section 253 makes special provision for companies which go into liquidation and has been the subject of much litigation and practical difficulty.

73. Section 253 (1) (a) is directed to the period from the end of the last year or period for which accounts have been made up, to the commencement of liquidation. The income of that period 'shall be deemed to be income of that period available for distribution to the members of the company'. The first difficulty relates to the making up of accounts. It was held in *Haldin & Philipps Ltd v. C.I.R.* (34 T.C. 497)¹ that this refers to accounts which had not been made up at the date of the passing of the winding-up resolution. Further, accounts are not made up until approved by members in general meeting. In the above case, audit reports on accounts for the year to December 31st, 1946, and for three months to March 31st, 1947, were signed, respectively, on August 1st, 1947, and November 1st, 1948, and both accounts were approved by members in extraordinary general meeting in April 1952. Liquidation had commenced on July 15th, 1947. These accounts had not, therefore, been 'made up' so as to be outside what is now Section 253 (1) (a). That provision covered the period from January 1st, 1946, to July 15th, 1947, and not, as the company contended from April 1st, 1947, to July 15th, 1947. If members' voluntary liquidation is contemplated, every effort should be made to complete accounts for open periods and have them approved by members, if necessary on the same day as, and immediately prior to, the passing of the winding-up resolution.

74. The second difficulty in Section 253 (1) (a) is to interpret its practical effect, following the quoted reference in the preceding paragraph. It was generally supposed for many years, on the basis of the decision in *H. Collier & Sons Ltd v. C.I.R.* (18 T.C. 83),² that a surtax direction for the period at issue was mandatory on the Special Commissioners and followed automatically on the events. All that Section

¹ 32 A.T.C. 321.

² 11 A.T.C. 417.

253 (1) (a) provides is that income for the period in question is deemed to be income available for distribution. This was clearly prompted by the fact that income of such a period which has not been distributed before commencement of liquidation, under company law loses its character and the underlying assets representing it pass to the liquidator as part of the aggregate assets so passing, and are dealt with as capital in the liquidation. This is an artificial 'deeming' provision to ensure that surtax may extend to a fund, as if it were income, which in law is not distributable as such. If income of such a period is deemed to be income available for distribution, and what follows is not mandatory and automatic, the ordinary rules in Section 246 must be followed. In other words, what case could be made for non-distribution if the directors were free to distribute? The general points laid down in Section 246 are to be followed but these are not necessarily all-inclusive. At the same time, it is always difficult and usually impossible to establish the basic point that retention of profit is required for maintenance and development of the company's business when directors necessarily have knowledge that the company is to be liquidated. Whilst, as a matter of law, directions for periods in question do not follow automatically, it remains, as a matter of practice, most difficult to resist them. It is no answer, in law, to point out that the succeeding company, on a reconstruction, will need the resources representing these profits, as a different legal entity is involved.

75. The above observations are based on the case of *A. & J. Mucklow Ltd v. C.I.R.* (35 T.C. 251 and 269).¹

76. In applying Section 245 to a company in liquidation, the reference to distribution 'within a reasonable time' is deemed to be omitted. (Section 253 (1) (b).) This also applies to the year or period for which accounts have been made up which ends immediately prior to the period identified by Section 253 (1) (a). Unless there has been delay in passing accounts of complete periods (as in the *Haldin & Philipps* case, above), Section 253 (1) (a) will apply to the broken period from the last accounting date to date of commencement of winding up, and the following subsection will apply to the last complete accounting period to end before that time. The obvious analogy with income tax assessments is that of final and penultimate years. The omission of the requirement as to distribution within a reasonable time, in relation to the penultimate period, does not seem of great significance and the only way in which it might add to the powers of the Inland Revenue, would be in obviating a contention that liquidation followed so closely upon the last complete accounting period as not to have afforded the directors a reasonable time in which to make a distribution of income. Reference has already been made, in relation to sales of shares and amalgamations, to the Special Com-

missioners being prepared to press their view that a reasonable period might be as short as one day, so the contention would have been of doubtful value.

Responsibility of liquidator

77. When a company is in liquidation, notices must be served on the liquidator. He is responsible for all the statutory requirements applicable to the company and for payment of any surtax payable by or recoverable from the company. (Section 253 (2).) When a liquidator pays surtax on a direction he must not treat this as a charge in arriving at the balance remaining for distribution to members. He must firstly calculate the amount distributable to each member (leaving the surtax out of account) and then deduct from the amount due to each member the surtax applicable to him. The result is as if the liquidator had paid the tax as agent for each member (*re: Alexander Drew & Co Ltd* ([1935] Ch. 93, 13 A.T.C. 670)). When a members' voluntary liquidation is part of a reconstruction scheme, under which the liquidator retains only a fund of cash and investments, and shares in a company which will continue the business, it is usual for liabilities, including taxation, to be taken over by that company and an indemnity given to the liquidator. The Inland Revenue will look to the liquidator for payment of any outstanding liabilities, and will oppose steps to close the liquidation if taxes have not been agreed and paid, costs being sought against the liquidator. Steps may also be taken to restore to the register a company already dissolved before liabilities are discovered.

Income apportioned to members

78. Section 253 provides (subsection (3)) that income apportioned to a member for the period from the date to which accounts were last made up, to the commencement of liquidation, shall be deemed to have been received at the latter time. This relates to the final broken period, when accounts for the last complete accounting period have been approved before commencement of liquidation, but the *Haldin & Philipps* case must be remembered in this context. Using the accounting periods at issue in that case, income apportioned to a member for the year to December 31st, 1946; the three months to March 31st, 1947; and for the final broken period to July 15th, 1947, would be treated as arising on the latter date. More than eighteen months' income would be treated as arising on the same date and would constitute income for surtax of 1947-48. The relieving provisions contained in Section 238 and Section 249 (2) (c) do not cover these circumstances. The former relates to income receivable under deduction of tax, and the amount apportioned following a direction is only notional income. The latter provision is not applicable because Section 253 (3) is mandatory in fixing the date of commencement of winding up as the date on which the notional income is deemed to arise. Section 238 may be applicable, however,

¹ 33 A.T.C. 250.

when a dividend has been received in the same year or that to which apportioned income is related.

Winding-up of other bodies corporate

79. The surtax direction legislation applies to any body corporate incorporated in any part of the United Kingdom under any enactment. When such a body corporate is not a company incorporated under the Companies Act, 1948, or corresponding Northern Ireland legislation, references to liquidation are modified as follows:

- (a) References to winding up include dissolution or cancellation of registry by any means appropriate to its constitution.
- (b) References to an order or resolution for winding up include any other constitutional means directed to dissolution or cancellation of registry; and winding up shall be deemed to have commenced when such action was taken.
- (c) References to the liquidator include any person in charge of winding up the affairs of the body corporate. (Section 255 (1).)

Post-liquidation income

80. Income received by the liquidator of a trading company is not subject to surtax direction in his hands.

Relationship to Profits Tax

81. Since the national defence contribution became profits tax in 1947, it has been the principle that profits tax is not chargeable when undistributed income of a company is made liable to surtax by a direction. Section 31 (2), F.A. 1947, provides that profits tax shall not be charged for chargeable accounting periods which correspond with a year or period for which all the income of a company is apportioned for surtax amongst individuals. This refers to the amount finally apportioned, by means of apportionment and sub-appointment, where necessary. (Section 31 (4), F.A. 1947.) When, in the result, part only of the income is apportioned to individuals, a claim may be made to have the profits tax amended as if the company's business were carried on by the members in partnership. The shares applicable to individuals, corresponding with their shares of income apportioned for surtax, are treated as not liable to profits tax and the amount appropriate to bodies corporate left in charge. Claim for this treatment is to be made within six months after the end of the chargeable period, by the company and the members who are not individuals. The time limit may be extended by the Commissioners of Inland Revenue. A claim will continue to apply to subsequent chargeable periods which correspond with periods for which surtax directions are made. (Section 31 (3), F.A. 1947.)

82. If profits tax remains payable, it is deductible in computing the actual income of the company

from all sources, together with an appropriate amount for income tax. The effect is to deduct an amount which, after deduction of income tax at the standard rate, would be equal to the profits tax paid. (Section 68 (1), F.A. 1952.) An amount paid by a subsidiary company to its parent as a reimbursement of profits tax (when a grouping notice is in force) is treated as profits tax paid by the subsidiary and a reduction of the liability of the parent. (Section 68 (5) (b), F.A. 1952.)

83. Some discussion is heard of the powers of the Inland Revenue to give directions for surtax when profits tax has already been assessed and paid for corresponding periods. The suggestion is that the Inland Revenue are unable to repay the profits tax and then to give a direction. It is not thought that there is substance in this. In the first place, Section 31 (2), F.A. 1947, removes the company from the charge to profits tax which is contained in Section 19, F.A. 1937. There is no provision for relief or repayment – the company is not liable *ab initio*. If payment is made before action is taken under Section 245, it is *prima facie* repayable. Whether or not tax paid under what becomes a mistake in law is recoverable as of right from the Crown, the fact is that this is what actually happens. In any event, it does not seem that there is anything to prevent the Special Commissioners from proceeding under Section 245. If that cannot be disputed, neither should the Revenue's willingness to repay the profits tax.

84. A point of some importance may arise in relation to liquidations. If a liquidation is closed before surtax liability emerges, and the company is dissolved, there will be difficulty in obtaining profits tax repayment. The only possible course would seem to be an application to the Court by the former liquidator to restore the company to the register. This was accomplished by at least one company affected by compensation receivable on nationalization of the coal industry.

85. Finally, the profits tax position must be remembered when negotiating a compromised dividend settlement with the Special Commissioners, and in considering the likelihood of surtax directions. However unreasonably the directors appear to have acted, the Special Commissioners are unlikely to give directions which would make no net contribution to the Exchequer. The existence of members who cannot be reached by apportionments adds point to this consideration. Whilst the Special Commissioners may be invited, under Section 252, to give a direction, it does not seem that they can be compelled to do so!

Receipts after Cessation of Trade

86. Liability to income tax under Case VI arises in respect of certain sums received after discontinuance of a trade. (Section 32 (1), F.A. 1960.) It follows that a liquidator may be charged in respect of post-liquidation receipts which comprise sums not brought to credit when they arose to the trade before

its cessation. They will be capital in the hands of the liquidator but it is provided that they will be deemed to be income for surtax of the members of a Section 245 company. The Special Commissioners may make directions and apportionments from time to time. (Section 33 (4), F.A. 1960.)

INVESTMENT COMPANIES

Definitions

87. Sections 257 to 264, Income Tax Act, 1952, modify the provisions relating to surtax directions in the case of investment companies. (Section 257 (1).) An investment company is one incorporated in the United Kingdom under any enactment, the income of which consists mainly of investment income. Investment income, in this context, is income which would not be regarded as earned, for income tax, if received by an individual. Amounts apportioned to a company, following a direction, are deemed to be investment income of that company. (Section 257 (2).) Earned income is defined in Section 525 of the 1952 Act. The relevant parts cover remuneration from any office or employment, and income charged under Schedules B or D which is derived by the individual from the carrying on or exercise by him of his trade, profession or vocation.

88. It is a question of fact whether the income of a company consists mainly of investment income, but investment companies are, nevertheless, by no means always readily identified. In particular, on a literal test, the position may vary from year to year, in the light of succeeding accounts. It is understood to be the practice of the Special Commissioners to look at the sources of a company's income for a reasonable period, when there are activities which produce, or could produce, income which would not rank as investment income. When a company carries on a trade and incurs losses which exceed its investment income, the net income is nil, and the company is not regarded as an investment company. (*F.P.H. Finance Trust Ltd v. C.I.R.* (26 T.C. 131).¹ If, however, trading results (whether profit or loss) do not exceed the amount of the investment income, the Special Commissioners may, in the light of the figures and the general circumstances, regard a company as within the special legislation. The matter cannot be decided, in such a case, entirely on the figures, as the Special Commissioners are required to consider whether the company *exists* wholly or mainly for the purpose of carrying on a trade, and, if they are satisfied that such is the case, automatic directions will not be given. (Section 262 (7).) The provisions relating to the making of statutory declarations and submission of accounts for clearances do not apply to cases in which automatic directions *may be given*. (Section 262 (2) (b).) The question of requiring the Special Commissioners to apply the investment

company provisions will be considered later, in relation to profits tax. (See paragraph 121, *post*.)

Automatic Directions

89. This does not imply mechanization at Thames Ditton. The general rule is that the whole of the actual income from all sources of an investment company, for every year of assessment, shall be the subject of a direction by the Special Commissioners under Section 245. The amount distributed (if any) is immaterial and the Special Commissioners must not consider whether, in fact, a reasonable part of the income was distributed. (Section 262 (1).)

Exception for holding companies

90. Automatic directions will not be given if the Special Commissioners are satisfied that a company exists wholly or mainly for the purpose of co-ordinating the administration of two or more trading subsidiary companies. (Section 262 (7).) It follows that the policy of the group as to whether reserves should be retained by the parent or subsidiary companies will not, of itself, affect the surtax position. The parent of a single subsidiary is not within this exception. A subsidiary incorporated outside the United Kingdom will not be included in establishing the parent as a co-ordinating company.

Exceptions for estate or trading income

91. Automatic directions will not be given when all the income of an investment company is 'estate or trading income'. (Section 262 (3).) That expression means:

- (a) income chargeable to income tax under Schedules A and B;
- (b) income from ownership or occupation of land which is chargeable to income tax under Schedule D; and
- (c) income which is not investment income.

In (b) above, 'land' includes tenements, hereditaments and heritages, and income from land, in relation to a building or part of a building, includes furnished lettings. (Section 262 (8).)

92. There are provisions to cover the more common case, when income includes, but does not comprise, estate or trading income. For this purpose, income which is not estate or trading income will be described as investment income. In strictness, categories (a) and (b) of the definition set out above are estate or trading income, although also within the definition of investment income. In these cases, automatic directions will be given for the investment income (i.e. all income except estate or trading income). The estate or trading income will be separately considered as if it were the whole income of a company within Section 245 which is not an investment company (Section 262 (4)). In considering whether a reasonable distribution of this income has been made, the Special

¹ 23 A.T.C. 147.

Commissioners must regard as available for distribution (in addition to the sums set out in Section 246) a 'sum expended or applied, or available to be expended or applied, out of the income of the company in or towards the redemption, repayment or discharge of any loan capital or debt' to a 'loan creditor' (Section 258 (1)). 'Loan creditor' means a creditor for a debt incurred by the company:

- (a) for money borrowed, or capital assets acquired, by the company; or
- (b) for any right to receive income created in favour of the company; or
- (c) for consideration the value of which to the company (at the time when the debt was incurred) was substantially less than the debt (and any premium thereon); or
- (d) for any irredeemable loan capital issued by the company.

There is dispensation for money lent in the ordinary course of banking. (Section 258 (4).)

93. In considering whether a reasonable distribution of estate or trading income has been made, income distributions are to be treated as primarily made out of investment income. Only the excess of such distributions over investment income may, therefore, be taken into account in considering whether a reasonable distribution of estate or trading income has been made. Outgoings which may be deducted in computing estate or trading income may be attributed to such income, for this purpose, only to the extent that the Special Commissioners consider appropriate. Similarly, outgoings which may be deducted in computing investment income, may be attributed to such income only to the extent that the Special Commissioners consider appropriate. (Section 262 (4), provisos (i) and (ii).)

94. In computing the actual income from all sources of an investment company, no deduction may be made which would not be allowable from the total income of an individual for surtax, except for:

- (a) an amount which, after deduction of income tax at the standard rate, is equal to the profits tax payable by the company (Section 68 (2), F.A. 1952); and
- (b) such management expenses as the Special Commissioners consider reasonable, having regard to the requirements of the company's business. In the case of directors' fees or other payments for services, there is the further requirement that the Special Commissioners must have regard to the actual services rendered to the company. (Section 262 (2), proviso (a).)

Election re estate maintenance expenditure

95. Notice may be given to the Special Commissioners within six months after the end of a year of assessment, requiring that the excess of estate expenditure which would be relevant to a main-

tenance claim, over the estate or trading income (computed before deduction for maintenance expenditure, including the authorized deduction for repairs in Schedule A and excess rents assessments) be deducted from investment income. Apart from this election, the actual income from all sources would include the statutory estate income, namely, net Schedule A assessments, excess rents assessments under Case VI of Schedule D, less claims as allowed for income tax, including maintenance relief normally computed by reference to average expenditure incurred in the five years preceding the year of claim. Such relief, if any, may differ materially from the actual maintenance expenditure incurred in the year for which the surtax computation is being made. Any amount deductible in subsequent years for maintenance relief must be reduced by the amount already taken into account on such an election being made. (Section 252 (5).)

Investment Companies in Liquidation

96. As automatic directions under Section 262 are given for years of assessment, it is necessary to provide for any broken period up to commencement of the winding up of a company. Such period is to be treated as a year of assessment. (Section 262 (6).)

97. When an order has been made or a resolution passed for the winding-up of an investment company which is within Section 245, the actual income of the company from all sources from that time is deemed to be income of the members for surtax purposes. (Section 263 (a).) References to liquidation will cover comparable constitutional methods of dissolving bodies incorporated in the United Kingdom which are not within the Companies Acts. (Section 255 (1).) As the whole of the income during liquidation is deemed to be that of the members, it follows that the distinction between estate and trading income and other income ceases to be relevant when liquidation commences.

98. The Special Commissioners must give notice to the liquidator from time to time, directing that the income for the year or period specified in the notice shall be deemed to be income of the members for that year or period. Apportionments and assessments and charges to surtax will be made. (Section 263 (b).)

99. The procedure and consequences will follow, with any necessary modifications, the general provisions regulating directions under Section 245. (Section 263 (c).)

100. Questions may arise as to concluding the winding-up of an investment company. A liquidator may be ready to close during a year of assessment for which income will be apportionable to members. The liability will not be ascertainable until that year has ended, and the tax computed by adding the amount apportioned to each member to his total income from all sources for that year. It is

understood that the Special Commissioners will acquiesce in the termination of winding up, if:

- (a) the members give written undertakings to accept the inclusion in their personal surtax liabilities for the year concerned of the amounts of the income of the company for that year which are appropriate to their respective interests; and
- (b) surtax is paid provisionally at 10s in the £ thereon. This involves payment of surtax at the maximum rate on all apportioned income so that repayment will later be required to members not liable to surtax at that rate. For the purpose of these arrangements, it is important that the provisional payment of surtax be made by the members. It may be convenient for the liquidator to arrange this but he should have a letter of authority from each member, and payments should not be made directly to the Inland Revenue out of liquidation funds.

101. Apportionment of post-liquidation income to a tenant for life of a deceased member is bad, since the income would be represented by part of the assets distributable by the liquidator as capital. (*Commercial Securities Ltd v. C.I.R.* (35 T.C. 15).)¹

Modification of Provisions for Investment Companies

Control by not more than five persons

102. In addition to the general provisions for ascertaining whether a company is under the control of not more than five persons (Section 256 (2) and (3)), an investment company will be deemed to be so controlled if any five or fewer persons would be entitled as loan creditors to receive, in a liquidation, more than half of the amount available for distribution to loan creditors and members. (Section 258 (2).) The expression 'loan creditor', as defined in Section 258 (4), was set out in paragraph 92, *ante*. The reference to liquidation is notional. A calculation is required of the relative amounts which would be repayable to loan creditors and to members according to their respective rights. If five or fewer persons would be entitled to more than half of the aggregate of these sums, the company will be deemed to be controlled by them and within Section 245. The consequential provisions are:

- (a) Loan creditors will be treated as members. (Section 258 (3) (a).)
- (b) For purposes of apportionment, a loan creditor will be deemed to have an interest in the income corresponding to the amount of the company's liability to him. (Section 258 (3) (b).)

103. The foregoing provisions are modified when a loan creditor could be required, under a settlement, to account to a beneficiary, directly or indirectly,

for the whole or any part of sums which would be payable by the company in discharge of the liability. If liability to account to a beneficiary extends to the whole amount receivable by a loan creditor, the beneficiary will be treated as the member, to the exclusion of the loan creditor, and entitled to the same interest in the income of the company. If liability to account to a beneficiary extends to part only of the amount receivable by a loan creditor, he and the beneficiary will be treated as members and their respective interests in the income will be apportioned by the Special Commissioners. (Section 258 (3), proviso.)

104. The provisions dealing with apportionments to loan creditors will apply whenever an investment company may be treated as controlled by not more than five persons under Section 258 (2), as set out above. It is immaterial whether the company would in any event have been so controlled under the general provisions of Section 256.

105. 'Settlement' includes any disposition, trust, covenant, agreement, arrangement, or transfer of assets. (Section 258 (5).)

Apportionment by reference to interests in winding-up

106. In apportioning income of an investment company, the Special Commissioners may, 'if it seems proper to them so to do', attribute to members an interest corresponding to their interest in the assets which would be available for distribution on a winding-up. (Section 259 (1).) This will apply to sub-apportionments of income to an investment company, as well as to original apportionments. It will also apply to sub-apportionments even when no direction has been given under Section 245 in respect of the company's own income, i.e. when there will be no original apportionment. (Section 259 (2).)

Non-members able to secure benefits

107. Special powers are reserved to the Special Commissioners to treat as a member of an investment company any person who, in their opinion, is, or is likely to be, able to secure that income or assets, present or future, will be applied directly or indirectly for his own or his wife's benefit. (Section 260 (1) and (6).)

Apportionment by reference to ability to secure benefits

108. Special powers are reserved to the Special Commissioners to apportion the income of an investment company, by reference to the ability of any person to secure that income or assets, whether present or future, will be applied directly or indirectly for his own or his wife's benefit. These will apply not only to a non-member notionally treated as a member, as set out in the preceding paragraph, but to members whose powers in this direction are out of relation with the amount of income which would otherwise be apportioned to them. (Section 260 (2)).

¹ 32 A.T.C. 369.

109. Whether a person is deemed to be able to secure that income or assets will be applied for his benefit depends on the facts of the situation not on rights at law or in equity. Before drawing the inference that a person has such a power, the Special Commissioners must be satisfied that he has, directly or indirectly, transferred assets to the company of a value greater than the value which could be placed on his interest in apportioning its income. The Special Commissioners must also be satisfied that persons either as directors, shareholders or otherwise, having powers or rights of disposal or application of income or assets are likely to act in accordance with the wishes of the person in question. This will also extend to his ability to secure that persons who will have these powers at the material times will be persons likely to act in accordance with his wishes. (Section 260 (3).)

110. Appeal may be lodged against apportionments made under these special powers. (Section 260 (5).)

111. When apportionment is made other than according to the register of members in accordance with these special powers, it may be that an income distribution made to a shareholder will exceed the amount apportioned to him. The excess of the amount received over the amount finally apportioned will be eliminated from his total income for tax purposes. (Section 260 (4).)

112. For the purposes of Section 260, 'assets' includes property or rights of any kind, and 'transfer', in relation to rights, includes creation of those rights. References to apportionments include sub-apportionments. (Section 260 (6).)

Procedure when automatic apportionments are not applicable

113. Section 261 applies when the whole of the income of an investment company is not subject to automatic apportionment under the succeeding section, i.e. to the extent of estate or trading income, and in the case of a company which either exists mainly to carry on a trade or to act as a co-ordinating holding company. (Section 262 (7).) In these cases, the Special Commissioners may give a direction under Section 245 if it appears to them that the company has not within any year of assessment, made an income distribution of a reasonable part of its actual income from all sources for that year, income being regarded as available for distribution as and when it became due and payable to the company. For this purpose, the general provisions relating to directions which refer to accounting years or periods, are modified to apply to years of assessment. When winding-up has commenced, either the period from the last accounting date to that time, or the period from the end of the last year or assessment to that time, may, at the discretion of the Special Commissioners, be treated as a year of assessment.

114. An amount apportioned to a member under this provision will be deemed to have been received by him on the last day of the year of assessment for which the direction is made.

115. From the amount apportioned to a member, there will be deducted, in assessing and charging surtax, any amount distributed to him in the same year of assessment out of the income of that year, which is liable to be included in his return of total income. (Section 261 (2) (a).) When a direction has been given for a year of assessment, and an income distribution is made after the end of that year, the above subsection will not apply. The distribution may be excluded from double liability to surtax by Section 249 (5), which covers all surtax directions.

116. When the process of apportionment is pursued through a chain of connected companies (Section 254), the amount deemed to be income of the members of the second or subsequent company shall, if that is an investment company, be the excess of the amount apportioned to the company over income distributions received from the first company in the year of assessment out of its income for that year. (Section 261 (2) (c).)

117. Statutory declarations and applications for clearance may be made by an investment company unless all its income is subject to automatic apportionment. Section 252, governing clearances, is modified so as to apply to years of assessment. (Section 261 (3).)

Power to obtain additional information

118. A general power is given to the Special Commissioners to require from investment companies by notice in writing such particulars as they think necessary for the purposes of the provisions regulating surtax directions. A time limit of not less than twenty-eight days may be specified in the notice. (Section 264 (1).) In the case of an investment Company, the power in Section 250 (4) to call upon a member to disclose the beneficial owner of the shares, is extended to loan capital. (Section 264 (3).)

119. There are penalties for failure to comply with a notice requiring particulars, or to give information as to the beneficial owner of loan capital. These are now within the general provisions for failure to make returns under Sections 46 and 47, F.A. 1960.

Investment Companies and Profits Tax

120. The exemption from profits tax provided by Section 31 (2), F.A. 1947, applies only when the actual income of the company from all sources is the subject of a surtax direction. It follows that there will be profits tax liability on the whole of the income of the company, as computed for that tax, when there is estate or trading income in respect of which a surtax direction has not been given. Unless estate or trading income is material, this would suggest a policy of non-distribution, so as to invite action under Sections 245 and 261.

121. The decision in *Special Commissioners of Income Tax v. Linsleys (Established 1894) Ltd* (in liquidation) (37 T.C. 677)¹ is such that those interested might be forgiven for thinking that the year in parenthesis should be 1984. The company's trade ceased on April 1st, 1952, whence there was no trading income before liquidation commenced on May 7th, 1953. The profits tax liability for the chargeable period from April 1st, 1953, to May 7th, 1953 (including distribution charge under rules then applicable), was £18,987, of which the proportion from April 6th, 1953, to May 7th, 1953 (thirty-two days out of thirty-seven), was £16,421. Following Section 68 (2), F.A. 1952, the gross equivalent with income tax at 9s in the £, was £29,856. The investment income of the part year of assessment was estimated at £8,920. The company was treated as an investment company for 1952-53 and automatic directions given. For the part year 1953-54 no direction was given on the ground that the actual income was nil (£8,920 being

less than the deduction for profits tax, £29,856). The company applied by Order of Mandamus requiring the Special Commissioners to give a direction from April 6th, 1953, to May 7th, 1953, so that the company and its corporate members could elect under Section 31 (3), F.A. 1947, that it should not be chargeable to profits tax for the period from April 1st, 1953, to May 7th, 1953. If a direction were given, the profits tax would not be payable, there would be no deduction for profits tax in arriving at the apportionable income, and the latter would be left at £8,920. It was, however, held that there could be no direction unless the company had actual income and in determining whether it had an actual income there must be a deduction for profits tax which was payable and would remain payable if no direction were given. This unfortunate result is unlikely to be repeated now that profits tax (without liability on distributions) should not greatly be out of relation to the income arising in the same period. The principles of the relationship between profits tax and surtax directions remain valid.

¹ 37 A.T.C. 26.

Weekly Notes

Reactions to the 'Little Budget'

THE immediate response to Mr Selwyn Lloyd's proposed crisis measures last week was one of disappointment and a feeling that there had been an anti-climax. By the week-end, however, opinion had veered slightly and was inclined to the view that the measures might be more severe in their effects than had at first been thought.

First reactions were not unpredictable. The Institute of Directors said that there was little in the proposals, except the increase in Bank rate, which would bring the crisis home to the average man. The National Union of Manufacturers thought that the increase in purchase tax and revenue duties would lead to demands for higher pay. The National Chamber of Trade, however, said it was no surprise to hear of the increase in purchase tax. There was a general endorsement from the Federation of British Industries and the British Employers' Confederation.

The more bitter comments were bound to come from interests which were directly affected by the changes. These included the National Greyhound Racing Association and the Motor Agents' Association, this last being backed up by the comments from the Society of Motor Manufacturers and Traders.

Doctrinal hostility came from the Trades Union Congress. The T.U.C. thought the measures were an admission of the inadequacy of the Government's previous policies. They welcomed the Chancellor's insistence on the need to maintain productive investment and they welcomed the decision to draw on the International Monetary Fund - provided the advance is not made conditional on this country adopting restrictive policies.

Into the Common Market

CRITICAL decisions these days are so well announced in advance that their formal enunciation is apt to be something of an anti-climax. So it has been with the Prime Minister's announcement last Tuesday that Britain is to negotiate for membership of the European Common Market.

Quite clearly, the Government has approached the whole question as slowly, as gently - even as casually - as it dare. It is only to negotiate and the Commonwealth and the E.F.T.A. are to have their interests fully taken into account. Nevertheless, the decision is a momentous one.

A chain reaction has been started. Britain is preparing to go into Europe to a degree never previously contemplated. There are still a large number of questions to be answered, previously prepared diplomatic positions to be abandoned and modifications to be made in traditional thinking, especially in this country and in France, before the United Kingdom can accede to the Treaty of Rome. The first step has been taken, however, and industry, which on the whole is not unfavourably disposed to the idea, must be prepared to take the plunge.

National Income and Expenditure

FIGURES have now been published of the national income and expenditure for the first quarter of this year. Gross domestic product, seasonally adjusted and valued at 1954 prices, rose in the first quarter by $1\frac{1}{2}$ per cent compared with the same quarter of 1960. At current prices, however, it was $6\frac{1}{2}$ per cent higher than a year earlier. The increase in incomes, again seasonally adjusted, was particularly marked between the last quarter of 1960 and the first quarter of this year. This is partly due to an increase in company profits after they had fallen for three consecutive quarters and partly to the rise in incomes from employment following the big number of wage awards last winter.

Personal disposable income went up by over 3 per cent between the last quarter of 1960 and the first quarter of this year and consumers' expenditure also increased after being fairly steady for the previous two quarters. Most of the increase in expenditure seems to have been on cars and other durable goods.

It is thought that the increase in fixed investment, which began in the middle of 1959, has probably continued into the first quarter of this year, although the rate of increase may have fallen off.

Basis for Planning

THE need for complete and up-to-date statistics relating to the British economy is stressed in the fourth report of the Council on Prices, Productivity and Incomes (commented upon elsewhere in this issue), for without such data, the probable consequences of Government intervention in the form of corrective measures against inflation and its consequences can only be partially assessed. Recent years have witnessed a major improvement in the coverage of these data and the latest evidence of progress in this respect is the recent publication of input-output tables for 1954.¹

Rather simpler summary tables giving a breakdown of final expenditure for a few industrial groupings have already appeared in recent Blue Books. This new publication contains seventeen tables analysing the interrelationships between forty-six homogeneous industry groups, together with thirty pages of text and appendices. The object of input-output tables is to reveal the interdependence of each industry (or sector of the economy where detailed industry figures are not available), upon all the other industries by analysing the sources of each industry's purchases, together with the destination of its end-product. The import content of each industry's output can be ascertained, and likewise the same information for its exports. Thus, while only 7 per cent of the coal industry's output was exported directly, indirect exports of twice this

figure were accounted for by the coal content of the rest of industry's exports.

The choice of 1954 data is explained by the fact that the last available full Census of Production related to that year. While it may be thought that these data are so out of date as to be valueless, it should be borne in mind that it is the interrelationships between different industries which are relevant here. Major changes in the industrial structure take place fairly slowly and knowledge of the interrelationships between industries ensures that fiscal regulators, or other micro-economic measures, can be used with greater confidence in their effectiveness than is at present the case. Furthermore, as the flow of economic data is improved and accelerated, so it will become easier to bring these input-output tables more up to date.

Taxation in Western Europe

THE third edition of the booklet *Taxation in Western Europe*, published by the Federation of British Industries, has been completely revised. It contains additional information to that which appeared in the 1960 edition and deals with specific changes made in the tax system of various countries, particularly Belgium, France, Sweden and the United Kingdom. Both Portugal and Spain are included in the book for the first time. This useful work of reference will in future be published regularly in June each year in order to meet the continuing demand for information on taxation matters in Western Europe.

Copies of the booklet are obtainable from the Federation's offices, 21 Tothill Street, London, SW1, price 20s post free.

Euclid Must Go

THE recent discussion in the correspondence columns of a leading national newspaper has done much to publicize the alarming state of mathematics teaching in Britain today. A new O.E.E.C. report¹ reveals that the problem is not confined to Britain. Almost universally, school teaching of mathematics is based upon a syllabus of principles and techniques which are over 200 years old; new developments, which exceed in quantity and significance all that had been previously discovered, have been made in this century, yet they are virtually ignored in the average school syllabus.

Since these topics form a key part of university teaching in mathematics, the new undergraduate is often puzzled by a new terminology which appears to bear little if any relationship to the mathematics which he learned at school. In consequence, the training of mathematicians is retarded and, still worse, many able students are discouraged from pursuing mathematics as an honours course of study. The difficulties extend beyond the specialist field.

¹ *Input-Output Tables for the U.K. 1954*. Studies in Official Statistics No. 8. H.M.S.O. 7s 6d net (by post 8s.)

¹ *New Thinking in School Mathematics*. O.E.E.C. H.M.S.O. 15s.

The increasing role of mathematical techniques in the social sciences, not least in the field of management, and the use of computers and operational research, means that there is an urgent need for the broader dissemination of mathematical principles.

The basic failure to produce a large number of people who are capable of thinking mathematically is attributed to the out-moded and irrelevant school syllabus. One leading speaker urged that Euclid should be abandoned and that the concept of the triangle be replaced by the more significant notion of the vector. Likewise, in the teaching of algebra too much emphasis is laid upon the mere doing of theoretical problems and too little on its use in the

solution of practical problems encountered in the physical sciences.

The growing importance of statistical concepts in every scientific field renders it imperative that some teaching of statistics, in particular simple probability theory and some understanding of statistical testing hypotheses, should be included in the school syllabus. While opinions as to the most suitable syllabus at any level may well differ, there can be no disputing the fact that if Britain is to maintain her place, let alone lead, in technological development and production techniques, the queen of the sciences must be restored to her rightful place in the school curriculum, at whatever cost.

This is My Life . . .

by An Industrious Accountant

CHAPTER 83

I SUPPOSE most young accountants, their Final successfully completed, seek a position with another firm of practising auditors and then leave it to chance or fate to guide their further careers. Leaving aside those few who can afford to plan their lives to their own design, most of us just play the cards as they come; a partnership, an industrial position, a foreign tour for experience . . . the future often hinges on the merest fluke. So at least it was with me.

I was six months qualified and still exceedingly unsophisticated, when our district society arranged a debate for the last monthly meeting of the winter's programme. The theme was 'Whither . . . practice or industry?' This was in the days when we spoke glibly of our commercial brethren as having deserted the profession, so the younger men were keenly interested. We all instinctively favoured the auditing side of our life, and we flocked to the debate to hear the pros and cons.

Coming into town on the train, I was suddenly buttonholed by the district secretary in unwonted agitation. He had a problem. A speaker for 'industry' had just called off; he must fill the vacancy; would I speak instead? Presumably I could find some little comment in favour of these mere secretarial types?

Taken at short notice, I agreed. We always assumed in our youthful optimism, that industrial accountants rose rapidly to secretaryships and then top management; the secretarial profession appeared a laudable goal; it was easy to eulogize a representative roll-call of the great. There was Pepys, with his driving passion for precision and system in his reorganized Admiralty; and Cecil, Lord Burghley, pouring his wily counsels into the ears of the inexperienced young Elizabeth. By contrast there was Pliny, who watched

from safety the eruption of Vesuvius and deliberately returned towards stricken Pompeii to compile firsthand data for his report to Rome; if we honour the sentinels who fell at their posts while the inhabitants fled, how much more so the devoted secretary who died in the poisonous fumes of duty's sake? I gave full value to this tear-jerker, and did not disdain to embellish some of the other names with histrionic imaginings.

My punch-line was an anecdote of the civil war between Pompey and Julius Caesar, when the rivals tried to patch up an uneasy truce during a dinner on Pompey's flagship, moored by the shore where Caesar's legions watched. At the height of the revelry, Pompey's secretary whispered to his master: 'Shall I cut the anchor-rope and let her drift, thus making you lord of the Roman world?' To which the would-be emperor made the classic reply: 'You should have cut it without asking me.'

It was really the ship's captain, according to my history book, but the translation to 'secretary' highlighted the story; I built it up as an illustration of loyalty and initiative and whatnot, and the audience gave it a great reception. They picked industry as the best choice for accountants, by a quite overwhelming majority, and I promptly forgot the whole incident. My own favourite subject was Schedule D with all its complex ramifications, and I looked forward to heading the tax section in a big partnership some day.

However, a week later our senior partner summoned me. We had two new clients, he explained, one a large manufacturing concern—just incorporated—with problems of initial board meetings, stock exchange quotations, statutory meetings, staff selections, choices of architects, contractors, insurance brokers, share issues . . . it was a formidable list. To my polite inquiry as to how it concerned me he answered bluntly. The firm wanted secretaries *pro tem*, and he had selected me 'in view of my obvious predilection' to take over our secretarial section at once.

Argument was useless. I've been a company secretary ever since.

Reviews

Management, Accounting and Profitability

by CHRISTOPHER BOSTOCK, M.A., F.C.A. (Sir Isaac Pitman & Sons Ltd, London. 18s net.)

When awarded a grant from the Leverhulme Trust in 1957-58, Mr Bostock's first choice of subject was 'The scope and application of management accounting to the small business'. As he went about his task, however, he came to realize that many problems of management apply to all businesses, irrespective of size. He therefore expanded his original theme with the result that his reasoning may be applied to large as well as to small concerns.

Mr Bostock analyses, first of all, why what he calls 'ordinary accountants' should wish to become management accountants; he goes on to discuss the relationship between management, profit and management accountants and then considers, successively, the various aspects of revenue and capital budgetary planning and what may be attempted and achieved in the way of control. The form and content of reports to be presented to management is dealt with next and, finally, he summarizes the mechanics of selling, installing and servicing a system of management accounting and what attributes the 'salesman-accountant' should possess. Most chapters have a short case-study as a tailpiece.

Mr Bostock travelled extensively to obtain material for his book and if it gives the impression in places of a personal report rather than a matured synthesis of fully digested experience, this is probably because he had not sufficient time to ruminate on all he had seen before putting pen to paper. A difficulty about doing research work within a limited period (in this instance a year) must be that 'time's winged chariot' is always immediately at one's back. This having been said, it should be added at once that Mr Bostock's book has many virtues. It is up to date; it reflects the viewpoint of a most observant practising accountant; it is written in good English innocent of jargon (which he so rightly deplores) and with all the 'emotional words' eliminated; and, above all, it is full of sound common sense, original and attributed. As well as giving a valuable lead to accountants about to make a career in industry, it should help management executives to assess the worth, both actual and potential, of these new-comers.

Mathematics in your World

by KARL MENNINGER, translated by P. S. MORRELL, B.A.(DUNELM), and J. E. BLAMEY, B.A.(DUNELM). (G. Bell & Sons Ltd, London. 21s net.)

Mathematics can never be made really easy but the informal approach to the subject by the author of this book, aided no doubt by the skill of the translators, is both disarming and inviting. It is written

for the intelligent type of person, mentioned in the foreword, who confessed that he loved mathematics but that it did not love him and succeeds completely in explaining the basic principles and exemplifying their application to everyday problems.

For those who like to keep their brains on the alert, even when on holiday, this is the book to pack. The deck-chair on the beach is the ideal place to appreciate the instructive and amusing consequences to be drawn from the fact that a flea can jump 150 times its own length whereas an elephant cannot jump at all; reading the dissertation on streets and highways, gradients and curves will help to relieve the tedium of the traffic jam; and due appreciation of the passages on forecasting the probability of a wet spell of weather and on estimating the chances of striking a winning sequence at roulette, may help not only to plan the holiday but to pay for it.

Spicer & Pegler's Practical Auditing

Thirteenth edition, by WALTER W. BIGG, F.C.A.

Spicer & Pegler's Practical Book-keeping and Commercial Knowledge

Eleventh edition, by W. W. BIGG, F.C.A., H. A. R. J. WILSON, F.C.A., and A. E. LANGTON, LL.B.(LOND.), F.C.A. (H.F.L. (Publishers) Ltd, London. 27s 6d and 21s net.)

So expertly have these books been revised down the years that it is difficult to credit that they are not now new works but in fact first appeared in 1911 and 1912, respectively. The new edition of *Practical Auditing* incorporates, where appropriate, the latest recommendations of the Council of The Institute of Chartered Accountants in England and Wales and elaborates on the audits of, to name but two, insurance companies and building societies which changes in the law have affected.

The latest edition of *Practical Book-keeping and Commercial Knowledge* has been likewise refurbished to take cognizance of such diverse matters as the European Common Market and the operation of the Restrictive Practices Act.

How I made \$2,000,000 in the Stock Market

by NICOLAS DARVAS. (William Heinemann Ltd, London. 18s net.)

Following in the agile footsteps of Mr Darvas, anyone who wants to make a lot of money on the stock exchange should join not a firm of stock-brokers but a ballet company, preferably one which goes on extensive tours which make regular contact with one's brokers as difficult as possible. Mr Darvas did this and, while pirouetting round the world, laid the foundations of his fortune. Thinking that he could consolidate by closer contact with the market, he abandoned ballet and began to frequent the office of his brokers in Wall Street but found that it lacked the detachment necessary to the practice of his new-found art. He then retreated to Paris

where he was able to assume once again the cool, clinical approach to investment which was finally to clinch his success.

It all started in 1952 when Mr Darvas was offered some mining shares as payment for a dancing contract in a Toronto night-club, could not keep the engagement but bought the stock. He tells in detail the story of his triumphs and disasters – he had two crises before he emerged on top – and the operation of his 'box' system and 'stop-loss insurance' method will make bitter-sweet reading to professional speculators who have aspired unsuccessfully to do the same thing. Is it too fantastic to suppose that some of them may even dance with rage and writhe with envy and so discover, with a casualness comparable to that which led Mr Darvas to financial fame, a hidden talent for the ballet?

Sales Accounting Methods

by R. H. DE G. MATLEY, B.S.C.(ECON.). (The Institute of Office Management, 56 Victoria Street, London, SW1. 35s net.)

The defences of even the most hardened reviewer are lowered when he is confronted with a book printed on glossy paper and full of photographs of pretty girls nonchalantly handling complicated office machines with effortless and smug efficiency. Almost invariably he sighs as he reads how a number of eminent companies (all named) cope with their accounting problems and what (named) makers of machines they employ. How different from us, he murmurs. . . .

This book follows the same pattern as many others of its kind. If, for example, the reader wishes to know how the (named) City Council prepares demand notes for general rates and water charges for its 45,000 rateable properties, pages 89–94 supply the answer with the inevitable photograph of . . . but this time it's a man. There is a short chapter at the end of the book on audit requirements which, if it does not probe very deeply, does at least recognize that mechanization produces special problems for the auditor to solve.

Retire into the Sun

by CECIL CHISHOLM. (Phoenix House Ltd, London. 18s net.)

Although Mr Chisholm's latest excursion into the realms of retirement is described on its jacket as 'a practical handbook', to many of his readers the probability of settling down in their old age in, say, Andalusia or the Languedoc will seem so remote as to make his narrative no more than a number of intriguing variations on a daydream. Yet to the adventurous few who possess a knowledge of the required language and who do not wish to rusticate in rural England (assuming that any of it is left by the time they retire) here is the book – an engaging mixture of escapism and economics.

Mr Chisholm applies three simple tests to his chosen territories – which stretch from the Channel

Islands to the Canary Islands by the roundabout way of the Riviera, Spain and Portugal – climate, cost of living and language and expertly weighs up the merits and demerits of each. Tenerife comes out on top (although it is not his own favourite) on the score sheet with 90 points out of 100. East Sussex and the Isle of Wight (graded for comparison) is 48, obtaining 0 out of 10 for taxation, 0 out of 8 for service available and only 5 out of 20 for climate. Among the other factors taken into account are social life, accommodation, accessibility, geographical beauty, the cleanliness and health records of the district and the cultural and cooking reputations of its inhabitants. The author appears to think of everything and ends with a fine flurry of thoughts from Carl Jung, Plato, Voltaire and Frances Cornford, the last of whom, incidentally, he murderously misquotes.

SHORTER NOTICES

INTEREST RATES AND ASSET PRICES, by R. Turvey (Allen & Unwin Ltd, London. 12s net), is a short monograph intended for professional economists which deals with the monetary influences determining prices of bonds and other assets.

I AM A BANK CLERK, by Philip N. Russell, B.A. (Macmillan & Co Ltd, London. 4s net). This composite, fictional account of what happens to a young man when he embarks on a banking career is so convincingly and attractively presented that one must hope that it will not divert too much promising talent away from the accountancy profession.

RECENT PUBLICATIONS

THE CLERICAL FUNCTION, by Allan A. Murdoch, A.C.W.A., A.A.C.C.A., A.C.I.S., and J. Rodney Dale, M.A., LL.B., B.S.C. (ECON.) viii+212 pp. 9×6. 30s net. Sir Isaac Pitman & Sons Ltd, London.

AUDITING PRINCIPLES. Second edition, by Howard F. Stettler, C.P.A. xvi+747 pp. 9½×6½. 70s net. Prentice-Hall International Inc., London.

SCANNING THE PROVINCES, fourth edition, 1961. iv+226 pp. 12½×9½. Board covers. Northcliffe Newspapers Group Ltd, London.

DEVELOPMENT FROM BELOW, by Ursula K. Hicks. xiii+549 pp. 9×5½. 35s net (U.K. only). Clarendon Press; Oxford University Press Ltd., London.

HOUSEMAN'S LAW OF LIFE ASSURANCE, fifth edition, by N. S. Wenborn, LL.B.(LOND.), F.I.A. xxii+247 pp. 9×5½. 27s 6d net, postage 1s 8d extra. Butterworth & Co (Publishers) Ltd, London.

FISCAL NEEDS OF THE CANADIAN PROVINCES, by Eric J. Hanson. vii+230 pp. Card covers. Price \$3.00. Canadian Tax Foundation, 154 University Avenue, Toronto, 1, Canada.

EXCHANGE ARITHMETIC, fourth edition, by H. C. F. Holgate, PH.D., B.S.C.ECON.(HONS.), London, F.I.B., and H. E. EVITT, F.I.B., M.I.E.X. viii+136 pp. 9×5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.

THE MANAGER AND THE ORGANIZATION, by Eric Moonman, with an introduction by William H. Whyte. 221 pp. 9×6. 21s net. Tavistock Publications, London.

COMMERCIAL CREDIT INSURANCE AS A MANAGEMENT TOOL, by Clyde William Phelps. Studies in Commercial Financing No. 3. 111 pp. 9×6. Card covers. Educational Division, Commercial Credit Company, 300 St Paul Place, Baltimore, 2, Maryland.

ESSAYS ON ACCOUNTANCY, by A. C. Littleton. xi+637 pp. 10×7. \$10.00. University of Illinois Press, Urbana, Illinois.

Finance and Commerce

Montevideo Gas

THIS week's reprint presents the accounts of The Montevideo Gas & Dry Dock Co Ltd, a British owned South American public utility company that has been having a very difficult time. Something of the situation the directors have to deal with may be seen in the report which picks up the story at the receipt by the company of wage claims early in 1961.

In the negotiations with the men, the company was in close touch with the Minister of Industries who agreed the increase to be given and that the new wage scale would necessitate a rise of 11 cents in the tariffs.

Up to this point, says Mr G. D. Paton, the chairman, the co-operation and support of the Uruguayan Government was complete. The wage increase was accordingly granted and it was only then the company learned that instead of raising the tariff by 11 cents to 96 cents per cubic metre, the Government had reduced the tariff by an exactly similar sum - a reduction of 22 cents on the tariff actually needed. This unwarranted and totally unexpected action which, says Mr Paton, appears to have been directed by political motives, meant that the company would again have to operate at a serious loss.

Energetic protests were made and every legitimate weapon used to persuade the Government to implement what they had already agreed and in the end an adjustment of 6 cents was conceded. The company again protested and another investigation committee was appointed.

Gas Rationing

Before this situation developed, the directors had been considering the possibility of using refinery gases likely to become available from the Government's new oil cracking plant. The method had been studied, the board had an expert's report and the matter had been discussed with members of the Council of State and interested Ministers, all of whom, says Mr Paton, showed great interest.

So when the Uruguayan Government suddenly and arbitrarily reduced the gas tariff, the company announced that it could not see its way to ordering more coal. And to eke out existing stocks it announced, early in May, gas rationing and suspension of coke sales. It was after this that the Government granted the small increase in the gas tariff and appointed the investigating committee.

Going Concern

Mr Paton points out that, in recent years, it has been the board's policy to keep capital expenditure to a minimum and net current assets in Uruguay, on which exchange losses may be incurred, have also been kept as low as possible. This policy is reflected in the build up of cash and investments in the United Kingdom.

There are two points to make in connection with these investments, he says. In the first place, the company has heavy short-term liabilities in Uruguay. Secondly, some of the plant is rapidly approaching the end of its working life. Furthermore, gas can only remain competitive with other fuels if costs are reduced by adopting the latest methods of gas production.

If the company is to continue its operations in Uruguay, some capital expenditure has therefore to be contemplated in the near future. In this connection, Mr Paton stresses that the discussions and inquiries regarding the use of refinery gases have so far been on a tentative and strictly exploratory basis. It has been made clear to all concerned that in no way is the company committing itself to any particular line of action; Mr Paton emphasizes that the board is not proceeding with any such plans and that, without adequate long-term safeguards, they would not embark on such a project.

He warns stockholders: 'the bulk of our assets would lose much of their value if the company ceased to be a going concern'.

Suggestions

Mr Paton said at the company's annual meeting on July 5th that some stockholders had written asking why the company did not cut off the gas supply until it obtained a satisfactory tariff. But he reminded the meeting of what he had told them a year previously: that such a drastic step, although it might ultimately become inevitable, had the gravest objections.

In the first place, the company had over 40,000 consumers in Montevideo who had laid out not inconsiderable sums on installations and appliances. If the gas supply were cut, there would be an immediate public outcry which the Government could not ignore and some form of official intervention would be likely.

The result could only be highly prejudicial to stockholders, especially as compensation would have to be paid to all the company's employees. Secondly, it was almost certain that such action would cause the debenture-holders to take action to protect their security.

Another suggestion from a stockholder was that the best course would be to dispose of the Uruguayan assets. The board, said Mr Paton, had always had this desirable possibility in mind and would certainly not hesitate to recommend such a step if a reasonable offer with satisfactory terms of payment were forthcoming.

The Montevideo Gas & Dry Dock Company, Limited
BALANCE SHEET as at 31st December, 1960.

	1960	1959		1960	1959
	£	£		£	£
CAPITAL:—			FIXED ASSETS:—		
Authorised	£1,100,000	£1,100,000	Freehold Land, Buildings, Plant, Machinery and Mains at net book value as at 31st December, 1947, plus additions since at cost, less consumers payments for mains as from 1st January, 1955	1,730,524	1,719,977
Issued and Fully Paid—Ordinary Stock	675,000	675,000	Less Depreciation as from 1st January, 1948	831,774	769,820
REVENUE RESERVES				898,750	950,157
General Reserve (see Note 1)	330,106	323,426	DEFERRED DEBTORS	15,703	17,962
Profit and Loss Account	47,146	1,157			
	377,252	324,583	CURRENT ASSETS:—		
	1,052,252	999,583	Stocks of Materials, etc.	183,172	135,145
LOAN CAPITAL (see Note 2):—			Debtors and Prepayments	138,018	161,369
Secured by Fixed and Floating Charge—			Deposits with Banco de la Republica del Uruguay for payment of creditors	—	46,378
6 per cent. First Mortgage Debenture Stock—			Short Term Loans in U.K.	210,000	190,000
Authorised, Issued and Fully Paid	407,750	407,750	Investments at or under cost:		
Less Redeemed and Cancelled to date	£102,651	(82,846)	British Government Stocks:		
Redeemed in advance but available for re-issue	21,848	(21,848)	Market Value £45,250 (1959, £46,187)	44,796	44,796
	124,499		Unquoted	750	188
			Balances at Bankers and Cash in Hand:		
			In U.K.	20,208	31,653
			In Uruguay	34,734	16,469
				631,678	625,998
CURRENT LIABILITIES:—					
Bank Loans in Uruguay	71,862	92,713	G. D. PATON } Directors.		
Sundry Creditors and Accrued Liabilities	121,225	178,907	R. F. DOUBLET }		
U.K. Taxation (see Note 3)	2,541	4,858			
Provision for Contingent Liabilities	15,000	15,000			
	210,628	291,478			
	£1,546,131	£1,594,117			

REPORT OF THE AUDITORS TO THE MEMBERS OF THE MONTEVIDEO GAS & DRY DOCK COMPANY, LIMITED.

In our opinion the foregoing accounts give a true and fair view of the state of the Company's affairs as at 31st December, 1960, and of its profit for the year ended on that date. We have obtained all the information and explanations which we considered necessary. In our opinion the Company has kept proper books and obtained proper branch returns and the said accounts, which are in agreement with them and with the said information and explanations, give in the prescribed manner the information required by the Companies Act, 1948.

3, FREDERICK'S PLACE,
OLD JEWRY,
LONDON, E.C.2.
31st May, 1961.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

NOTES ON ACCOUNTS

1. MOVEMENT IN GENERAL RESERVE.

	1959	1960
Balance at 31st December, 1959	£ 323,426	
Discount on £19,805 Debenture Stock redeemed during 1960	£ 6,680	
Balance at 31st December, 1960		£ 330,106

2. LOAN CAPITAL.

The Debenture Stock is subject to redemption by the operation of a Cumulative Sinking Fund to be applied by drawings at a premium of 2 per cent. or by purchases at a maximum premium of 2 per cent. In addition the Stock may be wholly or partly redeemed at varying premiums ranging from 5 per cent. to 2 per cent. according to date of redemption. Any Stock outstanding at 1st May, 1977, is to be repaid at a premium of 2 per cent.

In accordance with the obligation under the Trust Deed £13,125 was applied in the redemption of Stock in 1960, as compared with £12,183 in 1959.

3. U.K. TAXATION.

No U.K. taxation is payable on the profit for the year because the profit is offset by losses brought forward from previous years. The liability for U.K. taxation shown in the Balance Sheet is for tax deducted from interest.

4. EXCHANGE RATES.

The cost of fixed assets paid for in Uruguayan currency has been expressed in sterling at the rates current at the time of acquisition. The remaining assets and liabilities in Montevideo have been expressed at the free rate of exchange ruling at 31st December, 1960, viz., m\$ 31.05 per £. (1959, m\$ 31.25 per £).

5. CAPITAL COMMITMENTS.

There are commitments in respect of orders placed on capital account estimated to amount to £4,950 (1959, Nil).

CITY NOTES

At best, United Kingdom membership of the European Common Market is still a twelve-month away but there is already a tendency to shape investment in the Common Market direction. Any such tendency, however, involves the danger of treating the Common Market as an isolated factor.

There is more to investment than that. And there is more to the present industrial situation than Common Market prospects. Lord Ridley, chairman of Consett Iron, has put a knowing finger on the industrial pulse by stating that the need is for greater efficiency, higher turnover and reduction in costs, and by observing, in the next breath, that Government policies seem directly and indirectly to be moving in the opposite direction.

A systematic and intentional increase in costs through higher duties and dearer money cannot solve the basic problem of increasing production and exports. Neither can a determination on the part of the Government to deny industry an incentive to export.

Common Market membership will provide a severe enough test of British industrial efficiency. Already the two 'Budgets' this year have almost certainly impaired industry's ability to meet European competition on a cost and price basis.

RATES AND PRICES

Closing prices, Wednesday, August 2nd, 1961

Tax Reserve Certificates: interest rate (26.11.60) 3%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 27, 1961	7%

Treasury Bills

May 26	£4 8s 8.74d%	June 30	£4 10s 8.94d%
June 2	£4 8s 9.61d%	July 7	£4 10s 8.80d%
June 9	£4 9s 4.14d%	July 14	£4 11s 4.47d%
June 16	£4 10s 0.42d%	July 21	£4 12s 5.62d%
June 23	£4 10s 8.47d%	July 28	£6 13s 9.22d%

Money Rates

Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6½%
Fine Trade Bills		3 months	6½-6½%
3 months	7½-8½%	4 months	6½-6½%
4 months	7½-8½%	6 months	6½-7%
6 months	8-9%		

Foreign Exchanges

New York	2.79½-80	Frankfurt	11.14½-15
Montreal	2.88½-16	Milan	1736-17
Amsterdam	10.05½-8	Oslo	20.00½-1
Brussels	139.24½-25	Paris	13.70½-71½
Copenhagen	19.32½-33	Zürich	12.08½-1

Gilt-edged (revised List)

Consols 4%	57½	Funding 3% 59-69	79½
Consols 2½%	37½	Savings 3% 60-70	76½
Conversion 5½% 1974	90	Savings 3% 65-75	67½
Conversion 5% 1971	88½	Savings 2½% 64-67	81½
Conversion 3½% 1969	81½	Treasury 5½% 2008-12	86½
Conversion 3½%	51½	Treasury 5% 86-89	81½
Exchequer 5½% 1966	96½	Treasury 3½% 77-80	67½
Funding 5½% 82-84	90	Treasury 3½% 79-81	66½
Funding 4% 60-90	86½	Treasury 2½%	37½
Funding 3½% 99-04	56½	Victory 4%	93½
Funding 3% 66-68	79½	War Loan 3½%	51½

The Montevideo Gas & Dry Dock Company,
Limited

PROFIT & LOSS ACCOUNT for the Year ended 31st December, 1960.

	1960	1959
£	£	£
TRADING PROFIT FOR THE YEAR BEFORE TAKING ACCOUNT OF THE FOLLOWING ITEMS	125,031	78,124
Add: Interest on Investments (Gross)	11,768	7,870
	136,799	85,994
Deduct: Depreciation of Fixed Assets	69,390	76,085
Auditors' Remuneration (London and Montevideo)	662	407
Directors' Emoluments—fees	4,150	4,150
6 per cent. Debenture Interest (Gross)	17,391	19,590
Provision for Contingent Liabilities	—	15,000
	91,593	115,232
PROFIT (1959 Loss) FOR THE YEAR BEFORE TAKING ACCOUNT OF PROFIT (1959 Loss) ON EXCHANGE	45,206	(29,238)
Add: Profit (1959 Loss) on Exchange	783	(6,845)
	45,989	(36,083)
PROFIT (1959 Loss) FOR THE YEAR	—	—
Add: (1959 Deduct) Balance brought forward from previous year	1,157	2,240
Transfer from Contingencies and Taxation Reserve	—	35,000
	1,157	37,240
BALANCE CARRIED TO BALANCE SHEET	£47,147	£1,157

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

C.I.R. v. J. B. Hodge & Co (Glasgow) Ltd

In the House of Lords - July 13th, 1961
(Before Lord REID, Lord COHEN, Lord HODSON and Lord GUEST)

Profits tax - Non-distribution relief - Transfer of business to another company for shares - Thereafter a holding company - Winding-up - Election for distribution charge on transferee company - Effect of election - Finance Act, 1937, Section 19 (4) - Finance Act, 1947, Sections 30 (2), (3); 35 (1) (c); 36 (4); 43 (1).

The respondent company carried on the business of selling and servicing earth-moving machinery until April 5th, 1950. On that day it sold the business to a London company, and the consideration was substantially the whole of the shares in that company. Thereafter the company was an investment-holding company till March 18th, 1955, when it went into liquidation. The company's accounting periods ended on November 1st. On September 25th, 1950, the company and the London company had given notice under Section 36 (4) of the Finance Act, 1947, for any distribution charges to be made on the London company. The liquidator distributed the assets, and their value exceeded the company's paid-up capital, from November 1st, 1954, to the date of liquidation. An assessment to a distribution charge of £63,237 was made on the company for the period from November 1st, 1944, to March 18th, 1955.

It was contended for the appellant company (1) that the company was not carrying on a business chargeable to profits tax during the period between November 1st, 1954, and March 18th, 1955; (2) that no distribution was made for that period; (3) that after April 5th, 1950, the company carried on a business different from the business it had carried on before, and that non-distribution relief given for the former business could not be taken into account for the purpose of calculating the distribution charge under appeal; (4) that the effect of the election notice under Section 36 (4) of the Finance Act, 1947, was to free the appellant company of liability to distribution charges. The Special Commissioners decided in favour of the company on grounds (3) and (4).

Held: (reversing the decision of the Court of Session): the company was not exempt from distribution charges.

McKie v. Warner

In the High Court of Justice (Chancery Division)
July 7th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Schedule E - Flat provided by employer - Payment by employee therefor - Whether difference a benefit in kind - Whether difference deductible - Income Tax Act, 1952, Sections 156 (Schedule E), 196 (1), Schedule IX, paragraphs 1-7.

The respondent was export sales supervisor of a company, which considered it essential that the respondent should reside in London to enable him to carry out his duties satisfactorily. The company took a lease of a flat at a rent of £500 a year. There was a covenant in the lease that the flat was not to be used for any purposes other than those of a private residence for the respondent and members of his family. The respondent agreed informally with the company that the flat was sub-let to him in consequence of his employment, and subject to three months' notice on either side; and the respondent agreed to pay £150 a year for his occupation of the flat. It was a part of the respondent's duties to entertain foreign buyers at the flat, and a room was available for such visitors, but was also used by members of the respondent's family.

The appellant contended that the difference between the rent paid by the company and the sum paid by the respondent, namely, £350, was a benefit in kind, and that that sum should be included in the respondent's Schedule E assessment. It was contended for the respondent that the £350 was not so includable; and that if it was, the respondent was entitled to deduct £350 as expenses of his employment. The General Commissioners decided that the £350 was a benefit in kind, and that that sum should be included in the respondent's Schedule E assessment; but that the respondent was entitled to deduct £350 a year as expenses of his employment.

Held: the £350 was a benefit in kind includable in the respondent's Schedule E assessment; and that he was entitled to deduct £350 as expenses.

Jamieson v. C.I.R.

Wills v. C.I.R.

In the High Court of Justice (Chancery Division)
July 13th, 1961

(Before Mr Justice PLOWMAN)

Surtax - Settlement on children - And on their wives, husbands, widows or widowers - Whether settlement terminable - Whether settlement irrevocable - Finance Act, 1958, Section 404 (2) - Income Tax Act, 1952, Sections 397, 398, 399.

In 1950 the respondent made a settlement in favour of his one child then living and of future born children and otherwise as hereinafter mentioned'. The

settlement was to continue till the end of twenty-one years from the death of the survivor of the child and the settlor's wife. The trust fund was settled on issue (including children thereafter to be born) of the settlor, and the wives, husbands, widows or widowers of such issue. The beneficiaries took such shares as the trustees at their discretion should from time to time appoint. The trustees also had power to release or restrict their power of appointment. The trustees had not exercised their power of appointment, nor their power to release or restrict it, and they had accumulated the trust income during the relevant years. At the time of the appeal the settlor had three children, all of whom were infants. Surtax assessments were made on the appellant for 1955-56, 1956-57 and 1957-58 on the footing that the settlement income fell to be treated as his income.

It was contended on behalf of the appellant that the settlement was irrevocable within the meaning of Section 399 of the Income Tax Act, 1952. It was contended on behalf of the respondents that the settlement could be determined because the trustees could appoint the whole of the trust fund absolutely in favour of a particular beneficiary; and that the settlement was revocable for the purposes of Section 399 because it was thus determinable. The Special Commissioners decided in favour of the respondents.

Held: the Special Commissioners' decision was correct.

North of Scotland Hydro-Electric Board v. C.I.R.

In the House of Lords - July 13th, 1961

(Before Lord REID, Lord TUCKER, Lord KEITH OF AVONHOLME, Lord HODSON and Lord GUEST)

Profits tax - Deferred repairs - Change in person carrying on business - Change after statutory date - Whether relief available to successor - Finance (No. 2) Act, 1939, Section 16 (1) - Finance Act, 1946, Sections 36, 37 - Electricity Act, 1947, Section 14.

On April 1st, 1948, by virtue of Section 14 of the Electricity Act, 1947, the undertakings of two electrical companies vested in the appellant board. Proviso (iii) to Section 14 (2), and subsection (3), provide that all rights and liabilities of undertakings taken over by the appellant board in respect of excess profits tax shall vest in the board. The companies whose undertakings were acquired by the board, had not been able to execute certain repairs during the war years, but these repairs were effected by the board after the vesting date.

The appellant board claimed to be entitled to relief under Section 37 of the Finance Act, 1946, in respect of its expenditure on the deferred repairs. On appeal to the Board of Referees it was decided that the board was entitled to this relief, but on

further appeal to the Lord Ordinary in Exchequer Causes the appeal of the respondents against this decision was allowed.

Held (reversing the decision of the Court of Session) (Lord Keith of Avonholme dissenting): Section 14 (7) of the Electricity Act, 1947, gave the appellant board the same rights for ascertaining its liability to excess profits tax as it would have had if the liability had been that of the board; that the change of ownership of the trades or businesses of the two companies had for that purpose to be disregarded; and that the appellant board was entitled to the relief claimed.

Coates v. Holker Estates Co

In the High Court of Justice (Chancery Division)
July 18th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Woodlands managed on commercial basis - Election for assessment under Schedule D - Sale of woodlands - Whether growing timber was trading stock - Income Tax Act, 1952, Sections 83, 124, 125, 143, 279, 302, 323 - Finance Act, 1954, Section 18.

From 1931 to August 1954 the respondent occupied woodlands, which it managed on a commercial basis with a view to the realization of profits; and the company elected to be assessed under Schedule D. The woodlands were under the supervision of a qualified forester, and were regularly thinned, and the thinnings were mostly used for fencing the plantations, any surplus being sold to local farmers. Fellings were made from time to time, but about 90 per cent of the fellings were effected by one or other of two merchants with whom the company dealt. The merchants were invited to tender for the purchase of the designated timber, and they felled the timber themselves. The growing timber had not been treated as trading stock in the company's accounts.

On August 3rd, 1954, the company conveyed the woodlands to a purchaser, and ceased to occupy and manage them itself. In respect of the period from April 6th, 1954, to August 3rd, 1954, the appellant sought to treat the growing timber as trading stock within Section 143 of the Income Tax Act, 1952. The company appealed to the Special Commissioners and contended (1) that the election for assessment under Schedule D did not make the occupation of the woodlands to be a trade, within Section 143 (2); alternatively, that the growing timber was not trading stock within the meaning of that section. The Special Commissioners decided against the company on the first point but in the company's favour in the second point.

Held: (1) the company was not carrying on a trade, (2) if the company was carrying on a trade, the standing timber was not trading stock.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Limited, 27-28 Basinghall Street, London, EC2.

STATUTES

(9 & 10 Eliz. 2)

Chapter 24: Private Street Works Act, 1961

An Act to amend the law relating to private street works in England and Wales.

Price 3d net.

May 18th, 1961.

Chapter 25: Patents and Designs (Renewals, Extensions and Fees) Act, 1961

An Act to extend to six months the period of grace for the payment of renewal fees for patents and the payment of fees for the extension of the period of copyright in registered designs, to provide a like period of grace for the making of applications for such extension, to validate certain extensions of the said period of copyright, and to provide for amending provisions of the Patents Act, 1949, relating to fees.

Price 3d net.

June 22nd, 1961.

Chapter 26: Hyde Park (Underground Parking) Act, 1961

An Act to enable the Minister of Transport to secure the provision of parking facilities under Hyde Park; and for purposes connected therewith.

Price 3d net.

June 22nd, 1961.

Chapter 27: Carriage by Air Act, 1961

An Act to give effect to the Convention concerning international carriage by air known as 'the Warsaw Convention as amended at The Hague, 1955', to enable the rules contained in that Convention to be applied, with or without modification, in other cases and, in particular, to non-international carriage by air; and for connected purposes.

Price 1s 6d net.

June 22nd, 1961.

Chapter 28: Industrial and Provident Societies Act, 1961

An Act to raise the limit on the interest in the shares of a society registered under the Industrial and Provident Societies Act, 1893, which any one member may hold and to enable certain societies to make advances of money to members without security.

Price 4d net.

June 22nd, 1961.

Chapter 29: Rural Water Supplies and Sewerage Act, 1961

An Act to amend section two of the Rural Water Supplies and Sewerage Act, 1944.

Price 3d net.

June 22nd, 1961.

Chapter 30: Department of Technical Co-operation Act, 1961

An Act to provide for the establishment of a Department of Technical Co-operation under the charge of a Minister of the Crown.

Price 4d net.

June 22nd, 1961.

Chapter 31: Printer's Imprint Act, 1961

An Act to make provision for relaxing certain requirements of the Newspapers, Printers and Reading Rooms Repeal Act, 1869.

Price 3d net.

June 22nd, 1961.

Chapter 32: Local Authorities (Expenditure on Special Purposes) (Scotland) Act, 1961

An Act to amend section three hundred and thirty-nine of the Local Government (Scotland) Act, 1947, with respect to the purposes for which payments may be made thereunder.

Price 3d net.

June 22nd, 1961.

Chapter 33: Land Compensation Act, 1961

An Act to consolidate the Acquisition of Land (Assessment of Compensation) Act, 1919, and certain other enactments relating to the assessment of compensation in respect of compulsory acquisitions of interests in land; to the withdrawal of notices to treat; and to the payment of additional compensation and of allowances in connection with such acquisitions or with certain sales by agreement of interests in land; with corrections and improvements made under the Consolidation of Enactments (Procedure) Act, 1949.

Price 2s 6d net.

June 22nd, 1961.

Chapter 34: Factories Act, 1961

An Act to consolidate the Factories Acts, 1937 to 1959, and certain other enactments relating to the safety, health and welfare of employed persons.

Price 6s 6d net.

June 22nd, 1961.

Chapter 35: Police Pensions Act, 1961

An Act to provide for the consolidation, with or without changes authorized by the Police Pensions Act, 1948, of regulations under section one of that Act; and to make further provision for the application of the regulations in relation to special constables.

Price 3d net.

June 22nd, 1961.

Chapter 36: Finance Act, 1961

An Act to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the public revenue, and to make further provision in connection with finance.

Price 2s 6d net.

July 19th, 1961.

Chapter 37: Small Estates (Representation) Act, 1961

An Act to amend the law relating to applications for grants of representation in the case of small estates.

Price 4d net.

July 19th, 1961.

CRICKET

Chartered Accountants v. The Law Society

The annual match between The Institute of Chartered Accountants in England and Wales and The Law Society, played on the Richmond Cricket Club ground, was won by the chartered accountants by seven wickets.

The Law Society, having won the toss, batted first, but against steady and accurate bowling by Pieris and Bradley and later by Guest, runs did not come easily and by lunch the score stood at 50 for 5 wickets. After lunch the tempo increased and Dennis began to hit the ball more freely. He was finally eighth man out with a very useful 34.

The chartered accountants began their innings quietly and soon lost Walker with 3 runs on the board. Mocatta then joined Barton, who together stepped up the rate of scoring. Mocatta then began to dominate the batting. Runs came at a fast pace and The Law Society's total was soon passed with seven wickets in hand. The scores were:

The Law Society

G. F. Oakley, l.b.w., b. Bradley	..	..	0
G. Williams, c. Pieris, b. Bradley	..	..	30
P. L. Mallack, c. Pieris, b. Bradley	..	..	0
J. N. Dennis, c. Terrell, b. Pieris	..	..	34
*T. M. Sutton-Mattocks, run out	..	..	3
S. Lee, b. Guest	..	..	0
†S. D. Franks, b. Terrell	..	..	14

W. F. Goold, c. Rushton, b. Guest	..	..	1
S. Mundy, c. Terrell, b. Bradley	..	..	16
M. W. Hardcastle, c. Rushton, b. Pieris	..	..	14
C. Goldsmith, not out	..	..	3
Extras (b. 4)	..	..	4
Total	..	..	119

Bowling: I. Pieris, 19-11-35-2; D. A. W. Bradley, 15-6-24-4; J. V. Guest, 9-2-12-2; E. I. Terrell, 8-2-34-1; D. B. T. Lattey, 3-0-10-0.

The Chartered Accountants

B. D. Barton, b. Goold	..	..	19
A. M. Walker, b. Goldsmith	..	..	1
J. E. A. Mocatta, not out	..	..	74
†F. N. Rushton, st. Franks, b. Goold	..	..	12
D. B. T. Lattey, not out	..	..	11
Extras (b. 1, l.b. 2, n.b. 1)	..	..	4
Total (for 3 wickets)	..	..	121

I. Pieris, J. V. Guest, S. R. Lang, D. A. W. Bradley, E. I. Terrell, and *T. B. Stafford did not go in.

Bowling: M. Hardcastle, 10-0-39-0; C. Goldsmith, 11-2-40-1; W. F. Goold, 7-0-32-2; G. Williams, 1-0-6-0.

* Captain. † Wicket-keeper.

LONDON STUDENTS' COLUMN

News from the Chartered Accountant Students' Committee

by A Student Member

The Parker Report

The Council of the Institute have asked students' societies to complete and return a questionnaire giving their views and comments for or against each of the recommendations of the Parker Report on Education and Training. The questionnaire was circulated to members of the Committee, and a subcommittee will prepare and submit the replies.

Branches

The Reading Branch has reported a very active programme of meetings, tuition lectures, visits to industrial undertakings and cricket.

Budgets for the half-year to December 31st, 1961, were submitted by the Bedfordshire and Chelmsford Branches and were approved by the Committee.

Membership of the Committee

Mr M. O'Brien has been elected to the Committee in place of Mr M. W. Russell, A.C.A., who has had to retire owing to pressure of work.

New Members' Evening

Ninety-two new members of the Society were welcomed at the Oak Hall, after which they were shown around the Institute by committee members (previous to this, committee members were themselves shown around by Mr Carter, the idea being that they wouldn't then get lost!). From the Institute they moved to the Society's library and study room and then passed on

to supper. After supper they were welcomed by the President of the Society, Mr W. E. Parker, C.B.E., F.C.A., and introduced to the activities of the Society by the Chairman of the Committee, Mr B. J. Arthur.

Cricket

A match against Cardiff students resulted in a draw, but 295 runs were scored, so there was plenty of game.

Dances

The Summer Dance at the Hurlingham Club gave some 397 dancers a pleasant evening.

The Committee has refused to accept a recommendation that the price for the Christmas dance tickets be fixed at a lower price on a deficit budget.

Alteration of Rules

On the recommendation of the Committee of the District Society, the Council of the Institute have refused approval of the reduction of the maximum number of qualified members of the Committee, which was passed at the annual general meeting in April. The alteration does not therefore come into operation.

Magazine

Members will have read of the proposal to start a students' magazine. This naturally cannot function without members' support and the editorial board would be pleased to hear from anyone, qualified or artied, who fancies his pen-pushing abilities.

Notes and Notices

THE ACCOUNTANT

Change of Address

As announced on another page, the editorial and advertisement offices of *The Accountant*, consequent upon the forthcoming expiration of the lease of their premises at 4 Drapers' Gardens, London, EC2, are removing next week to Gee & Company's new building in the Strand.

Readers and advertisers are asked to note therefore that as from Friday next, August 11th, the address of *The Accountant* will be 151 Strand, London, WC2. Telephone: Temple Bar 0832/8.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

President's Luncheon

The President of the Institute, Mr P. F. Granger, and the Vice-President, Mr P. F. Carpenter, gave a luncheon party at *The Dorchester Hotel*, London, on July 27th. The guests were: Lord Milne, Lord Radcliffe, Sir Norman Brook, Sir Ivan Stedeford, Dr A. R. Beeching, Sir Thomas Robson, Mr D. V. House, Mr W. L. Barrows and Mr Alan S. MacIver.

PROFESSIONAL NOTICES

MESSRS HESKETH, HARDY, HIRSHFIELD & Co, Chartered Accountants, of Norwich House, 13 Southampton Place, London, WC1, and King's House, 42 King Street West, Manchester, 3, announce that they have taken into partnership Mr ANTHONY G. H. MARKS, A.C.A., and Mr BRIAN J. P. COTTON, A.C.A., both of whom have been senior members of their staff for some years. The firm's name will remain unchanged.

MESSRS JAYES, WHITE & Co, Chartered Accountants, of 5 Hatherton Road, Walsall, announce that as from July 31st, 1961, Mr HAROLD JAYES, F.C.A., is retiring from the partnership which will be continued by Mr R. B. WHITE, F.C.A., and Mr K. J. EMERY, A.C.A., under the same name. Mr JAYES will still be in attendance for some time after July 31st and will be available by appointment, in a consultative capacity.

MESSRS JENKS PERCIVAL & Co, Chartered Accountants, of 14 Finsbury Circus, London, EC2, announce that Sir RICHARD JENKS, Bt., who has been a partner for the last thirty years, retired from the partnership on July 31st, 1961, but will continue to be associated with the firm as a consultant. The practice will be carried on under the same name by the remaining partners.

MESSRS PANNELL, CREWDSON & HARDY, Chartered Accountants, of 9 Basinghall Street, London, EC2, announce that they have admitted to partnership in the London firm Mr DONALD IAN MAIN, F.C.A., who has been with them as a taxation manager for some years.

MESSRS A. & J. ROBERTSON, Chartered Accountants, and MESSRS MAXTONE GRAHAM & SIME, Chartered Accountants, announce that they have agreed to amalgamate their practices in Edinburgh with effect from October 1st, 1961, under the firm name of ROBERTSON & MAXTONE GRAHAM. On amalgamation the partners of both firms with the exception of Mr J. A. S. PATERSON, C.A., who is retiring, will become partners of ROBERTSON & MAXTONE GRAHAM. The combined practice will be continued at 33 and 34 Charlotte Square, Edinburgh. MAXTONE GRAHAM & SIME will continue their London practice at 54 Old Broad Street, London, EC2, and will represent ROBERTSON & MAXTONE GRAHAM in London.

MESSRS RUSSELL TILLET & Co, Chartered Accountants, of 18 St Swithins Lane, London, EC4, announce that as from August 1st, 1961, they have taken into partnership Mr JOHN SINCLAIR COPELAND, A.C.A., who has for some time been a senior member of their staff.

MESSRS WESTBURY, SCHOTNESS & Co, Chartered Accountants, of 14-18 High Holborn, London, WC1, announce that Mr D. CONWAY, A.C.A., has been admitted a partner of the firm as from August 1st, 1961.

MESSRS WHINNEY MURRAY & Co announce that they have opened an office at 5 Customs Street (P.O. Box 2442), Lagos, Nigeria, with Mr A. M. GREENLAND, T.D., F.C.A., as resident manager.

Appointments

Mr R. L. Tiffany, F.C.A., assistant manager of B.W. Trade Facilities Ltd, has been appointed secretary of the company.

Mr L. V. D. Tindale, C.A., and Mr A. R. English, F.C.A., have been appointed joint general managers of Industrial and Commercial Finance Corporation Ltd as from October 1st next.

Mr G. I. Howell, F.C.A., has been appointed to the board of Associated Newspapers Ltd and Mr P. J. Saunders, A.C.A., has been appointed secretary of the company.

Mr J. C. L. Boyes, F.C.A., chief accountant of Gallaher Ltd, has been appointed a member of the board of management.

Mr F. L. Dobbs, A.I.M.T.A., A.C.I.S., has been appointed finance officer of Dartford Hospital Management Committee.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

OBITUARY

L. J. H. Noyes, B.Sc.(Econ.), F.C.A.

We record with profound regret the death on July 29th of Mr Leslie John Henry Noyes, B.Sc.(ECON.), F.C.A., at the early age of 52. For the past seven years until his death he was the secretary to the Taxation and Research Committee of The Institute of Chartered Accountants in England and Wales, a position which he held with great distinction. He was a man of high ideals, of great integrity and of first-rate ability; and these qualities, combined with his devotion to his profession, enabled him to make an outstanding contribution to the technical work of the Institute. His quiet, unassuming manner belied his wide knowledge and his firm grasp of principles and endeared him to the many committee members who worked with him.

The opportunity to become a chartered accountant did not come to John Noyes until after the war. In the depression of the thirties he found an outlet for his mental ability by becoming in 1932 a chartered secretary, followed in 1936 by the degree of B.Sc. (Economics) in the University of London. Having joined the Inns of Court Regiment (Territorial Army) he was on active service for the whole of the 1939-45 war, first with the British Expeditionary Force and then with the Eighth Army. He was mentioned in despatches and reached the rank of major. It was typical of his modesty that very few of his colleagues knew that John Noyes had personally experienced the Dunkirk beaches and the reverses and triumphs of North Africa and Italy.

On demobilization in 1945 he was able to serve under articles and become a member of the Institute in 1948. He obtained further experience with practising chartered accountants and later with nationalized industries until he found his real niche in 1954 as Secretary to the Taxation and Research Committee of the Institute. His Institute appointment was a loss to the London School of Economics where he had held a part-time appointment as tutor in accounting. He continued, however, a long association with the University of London as a member of the Committee of Management of the Convocation Trust Fund, a member of the Standing Committee of Convocation and a leading member of the Social Subcommittee of Convocation.

John Noyes bore a terrible illness with great courage and his untimely death has deprived the Institute of a fine officer and his colleagues of a great friend. Their sympathy is extended in full measure to his widow and his young son.

APPOINTMENT OF ASSISTANT OFFICIAL
RECEIVERS

The Board of Trade have announced that Mr John Frederick Hirst has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Nottingham, Boston, Burton-on-

Trent, Derby, Leicester, Lincoln and Horncastle with effect from July 17th, 1961.

They also announce that Mr Derek Arthur Thorne has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Liverpool, Bangor, Birkenhead, Chester, Portmadoc and Blaenau Festiniog, Warrington, Wigan and Wrexham as from July 24th, 1961.

Mr Harry Roach has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Bradford, Dewsbury, Halifax and Huddersfield, and also for the Bankruptcy District of the County Courts of Leeds, Harrogate, Scarborough, Wakefield and York as from July 13th, 1961.

THE DUBLIN SOCIETY OF CHARTERED
ACCOUNTANTS

New Chairman Elected

Following the recent annual meeting of the Dublin Society of Chartered Accountants, Mr Cecil Garrett Walker, A.C.A., was elected Chairman for the year

1961-62. Mr Walker, who was admitted an Associate of The Institute of Chartered Accountants in Ireland in 1952, is a partner in the firm of Messrs Stokes Bros. & Pim, Chartered Accountants, of Dublin. The new Vice-Chairman is Mr R. P. J. Smyth, F.C.A., principal in the firm of R. P. J. Smyth & Co, of Dublin.



Mr C. Garrett Walker

The annual report of the Committee for the year ended April 30th, 1961,

presented at the annual meeting, records an increase in ordinary members during the year of twenty-nine, bringing the total to 400; in addition, 122 new student members were enrolled, bringing the total student membership to 304.

Regular luncheon and evening meetings were arranged during the session and among the eminent speakers to address members was Mr Erskine Childers, Minister for Transport and Power.

Meetings of the Industrial and Administrative Group were well supported, and an innovation was the holding of three study group meetings. Each meeting dealt with a specific subject and a guest speaker, an expert in the topic, was invited to give a short introductory talk to stimulate discussion. Informal luncheon meetings were held each month, and at the well attended annual dinner of the Group, guests were present from the Belfast and Munster Societies.

Other activities of the Society during the year included the annual golf meeting held at the Grange Golf Club in September, and the annual dance at The Gresham Hotel attended by 400 members and guests.

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INSTITUTE OF OFFICE MANAGEMENT

The Earl of Courtown, O.B.E., T.D., D.L., F.I.O.M., head of the office administration department of Imperial Chemical Industries Ltd, has been re-elected President of The Institute of Office Management.

Mr Denis Greensmith, M.B.E., F.I.O.M., a director of Boots Cash Chemists (Western) Ltd, and controller, administrative services, Boots Pure Drug Co Ltd, has been elected Chairman of the Council of the Institute in succession to Mr Geoffrey J. Mills, A.C.I.S., F.I.O.M., deputy chief comptroller, J. Lyons & Co Ltd.

Viscount de L'Isle, V.C., P.C., D.L., M.A., F.C.A. has resigned as a vice-president upon taking up his appointment as Governor-General of Australia.

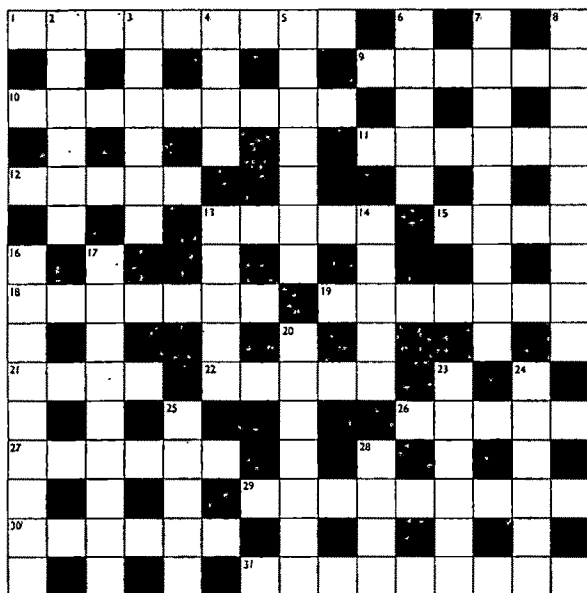
THE INSTITUTE OF WORK STUDY

The annual conference of The Institute of Work Study is to be held at the College of Aeronautics, Cranfield, from September 29th to October 1st, and will have as its theme 'The scope for investigation into office and sales procedures'. Papers to be given will include 'The fundamentals of office work', by the Earl of Courtown, O.B.E., T.D., D.L., 'Investigations into office work', by Mr Harry P. Cemach, F.C.A., and 'Work measurement in the office', by Mr R. R. Whitaker, of Imperial Chemical Industries Ltd, and Mr J. L. Gilmour, of Littlewoods Mail Order Stores Ltd.

Places will be available for non-members of the Institute and applications to attend should be addressed to the Conference Secretary, The Institute of Work Study, 3 Cork Street, London, W1.

BANK HOLIDAY CROSSWORD

Compiled by Kenneth Trickett, F.C.A.



CLUES ACROSS

1. The testator's shorthand-typist had no hand in this (9).
9. Part of the minute to support a proposal (6).
10. Gets shorter agreements to study regions (9).
11. This exchange could be ours (6).
12. Committee member designated on the electoral register (5).
13. The science of the fourth O.T. book (5).

The solution will be published in next week's issue.

15. Fifty in the pull-back cause prices to fall (4).
18. Printed reports of debates are rash and confused (7).
19. Arrange thus, for three of them are needed for certain majorities (7).
21. A late modification in Chinese money (4).
22. Risk interest to wager (5).
26. Put one in my coin (5).
27. Messenger who touts for business (6).
29. He is given an assurance to be in conflict conducted where the ball is first played (9).
30. Not a railway, but a registered officer who certifies deeds, contracts, etc. (6).
31. Improperly endures two learners to make a sale at a lower price (9).

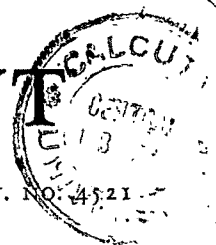
CLUES DOWN

2. Ring, then look about in the bus for a small coin (6).
3. It might be a 'put and call' (6).
4. About a pound, not personal (4).
5. They confer exclusive rights and are spent at random (7).
6. Number or time of currency (5).
7. To establish correspondence statistically, refer to the Coroner (9).
8. To give public commendation it turns up in unfavourable surroundings (9).
13. Coins or stamps required in examinations (5).
14. Shop stock reserve (5).
16. The tinner's poll-tax of eightpence to the Duke of Cornwall (5-4).
17. Security compensation (9).
20. Bank profit constitutes a favourable transaction (7).
23. Distrains, as pins do when mislaid (6).
24. Chime again in abrogation (6).
25. Carries stock sellers for forward delivery (5).
28. Without payment the real property has no place for the cargo (4).

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THE Trustee Investments Act, 1961, which received the Royal Assent on Thursday of last week gives statutory effect, subject to certain modifications, to the proposals contained in the White Paper, *Powers of Investment of Trustees in Great Britain*, published in December 1959.¹ Commenting in these columns on the proposals in the White Paper to widen the powers of investment of trustees, we said that they came none too soon, and for many beneficiaries far too late.² Since then the further considerable fall in the value of war stock has emphasized the need for urgency - not with a view to rescuing those who have already fallen victim to the depreciation of gilt-edged securities (whose lot can only be improved by the setting of a redemption date for the undated stocks), but so as to ensure that the interests of beneficiaries under future trusts are adequately protected. The Act, publication of which is expected very shortly, will give the protection which is required.

The Bill, on which we commented³ just after it had been presented and read for the first time in the House of Lords, underwent considerable revision during its passage through Parliament, but the amendments were in matters of detail rather than principle. The basic scheme, whereby a trust fund is divided into two parts, one of which may be invested in 'wider-range' investments, while the other is restricted to 'narrower-range' investments, remains, and the lists of permitted investments have been but slightly altered.

The essence of the Act is that those lists contain a far wider range of investments than that which was available to trustees under Section 1 (now repealed) of the Trustee Act, 1925, and in particular include debentures and stocks and shares of public companies in the United Kingdom, so that trustees now have a statutory power to spread the investment of their trust funds in such a way as to provide security of income for life-tenants and security of capital for remaindermen. The powers which enable the value of a trust fund to be maintained and a proper balance between the interests in income and in capital to be kept are accompanied by safeguards which should ensure that these desirable objects are achieved.

The 'narrower-range' investments (listed in Parts I and II of the First Schedule) are fixed interest securities which correspond broadly with the old trustee investments, though they include debentures of public companies. Initially, trustees who have only the statutory powers of investment must restrict the investment of

¹ Cmnd. 915 (1959). H.M.S.O. 6d net. ² *The Accountant*, January 2nd, 1960.

³ *The Accountant*, November 26th, 1960.

one-half of the trust funds to 'narrower-range' investments (Section 2). The other half may be put into 'wider-range' investments, which include securities registered in the United Kingdom and issued there by a company incorporated there and also shares in unit trust schemes (Part III of the First Schedule), so that trustees have for the first time a statutory power to invest in equities. Parts I to III of the First Schedule must be read in conjunction with Part IV, which limits the securities falling within the earlier parts. In particular, securities of public companies are not eligible unless their price is quoted on a recognized stock exchange within the meaning of the Prevention of Fraud (Investments) Act, 1958, or the Belfast Stock Exchange; unless they are fully paid up (or required by the terms of issue to be fully paid up within nine months of the date of issue); unless the total issued and paid-up share capital of the company is £1 million or more; and unless the company has, in each of the five years immediately preceding the calendar year in which the investment is made, paid a dividend on all its issued shares, other than shares issued after the dividend was declared and shares which by their terms of issue did not rank for the dividend for that year. The case where the business or the securities or control of one company is taken over by another is provided for.

If the trustees wish to reinvest in 'wider-range' securities moneys in the 'narrower-range' half of the fund, they must maintain equality by making what is called a 'compensating transfer of property of equal value to the 'narrower-range' half. On the other hand, no adjustment has to be made just because the value of the 'wider-range' part appreciates so that its value exceeds the value of the 'narrower-range' part, or because the depreciation of the 'narrower-range' part leads to a similar inequality. Section 2 (3) provides that where property accrues to a trustee as owner, or former owner, of property comprised in either part of a fund which has been divided, it shall be treated as belonging to that part of the fund; but in any other case the trustee is to secure, by apportionment of the accruing property or the transfer of property from one part of the fund to the other, or both, that the value of each part of the fund is increased by the same amount. Originally it was the intention that when property was taken out of the trust fund – e.g. for payment

of death duties – 'narrower-range' securities should not be realized so as to reduce the 'narrower-range' part of the fund to less than half of the total remaining. This might have led to the trustees being forced to sell on disadvantageous terms and now, by virtue of Section 2 (4), they have a complete discretion as to the securities to be sold.

An important and realistic provision of the Act – not included in the original Bill – is Section 13, which enables the Treasury by statutory instrument to direct that the ratio which the 'wider-range' part of a fund bears to the 'narrower-range' part may be increased up to 3:1, in which case three-quarters of the fund could be invested in equities. Furthermore, Section 12 permits the securities listed in the First Schedule to be added to by Order in Council.

Unless they are investing in the few 'narrower-range' securities included in Part I of the First Schedule, it is the duty of trustees, imposed by Section 6 (2) (3), to obtain and consider 'proper advice' both as to the purchase and retention of investments. 'Proper advice' is the advice of a person reasonably believed to be qualified by his ability in and practical, experience of financial matters (Section 6 (4)). It seems that this provision merely gives statutory force to a duty which trustees have always had, though they may not always have been aware of it; so, also, trustees seem always to have had the duty, imposed by Section 6 (1), of having regard to the need for diversification of investments and to the suitability to the trust of particular investments.

The wider investment powers contained in the Act are exercisable by the trustees of all existing trusts (Section 1 (3)). Trustees who have been given powers of investment in excess of the statutory power, but not unlimited, may exercise their special powers concurrently with those conferred by the Act, the position being governed by Section 3. The Court's power to confer wider powers is unaffected (Section 15); but it seems certain that the Court will be disinclined to enlarge the statutory powers. Presumably those settlors and testators who have in the past felt that their trustees should have unlimited powers will continue to do so.

New Light on Business Expenses

THE CHANCELLOR OF THE EXCHEQUER promised in his Budget statement last April that the Inland Revenue would be adding to their useful series of explanatory notes a new item, namely *Notes on expenses payments and benefits for directors and certain employees*. These notes have now been published¹ and they purport to explain the treatment for income tax purposes of expenses payments and benefits received by (a) directors and (b) employees earning £2,000 or more a year. They deal, in other words, with the new code introduced by the Finance Act, 1948, and now contained in Sections 160 to 168 of the Income Tax Act, 1952, together with the rule as to admissible expenses.

One criticism will immediately occur to most persons familiar with these problems who read the notes: they are disappointingly brief, hardly covering thirteen small pages. Bearing in mind that these pages include a résumé of the provisions of Sections 160 to 168, there is not much space left for notes on practice and concessions. The question of valuation of benefits, for instance, is disposed of in fifteen lines.

Of course, the background of this legislation is to prevent avoidance by the employer debiting expenses to his own profits and yet passing on a benefit to a director or senior employee in a non-taxable form. Nothing is said about apportionment where a director enjoys facilities made available to other employees and to customers in the ordinary course of the trade. Suppose, for instance, that a director uses a seat in a car or aircraft which otherwise would have been wasted, perhaps because the customer for whom it was intended does not in fact travel? Can it be said that the employer provides such a seat for the director? Topics of this kind have been the subject of much argument and it would have been helpful to see some pronouncement on them.

The notes do deal with one aspect which has been highly controversial. They say, in relation to subsistence, 'that it is only the *extra* cost of living away from home that qualifies for deduction as business expenditure. We questioned this

assertion in a leading article written at the time the topic was being discussed before the Royal Commission. The notes now say that if there are continuing financial commitments at home, the whole cost is in practice normally allowed. Prior to April 17th, 1961, the whole cost was allowed only if the total absences from home in the year did not exceed three months. Moreover, the so-called concession is not given to a person with no permanent residence, e.g. a bachelor living in a hotel or club who gives up his room when travelling on business. The notes go on to set out word for word the extra-statutory concession No. 17 in relation to travelling and subsistence expenses. Concession No. 18 is also set out.

A whole page is devoted to the delicate topic of wives accompanying their husbands on business trips, and it is clear that this section has been written with one eye on *Maclean v. Trembath* (35 A.T.C. 76), where a wife accompanied her husband on a business trip to Australia. It is conceded that the wife's expenses may be allowed where the husband's health is so poor that it would be unreasonable to expect him to travel alone. And happy the man whose wife is a talented hostess, provided he can satisfy the inspector that a series of business entertaining occasions are an 'essential' part of the mission.

Nearly two pages of the notes are devoted to cars, but no mention is made of the restrictions imposed by the Finance Act, 1961. The annual value to a director of the use of a car made available to him is assessed at 12½ per cent of the cost of the car 'when new'. This presumably is confined to the case where the car was new when the employer bought it.

The vexed question of entertainment receives less than a page, and this is couched in somewhat vague terms which may be summed up as 'it all depends'.

The Government has been much pressed in the House of Commons to introduce new legislation at once to cut down the allowance of entertainment expenses, instead of waiting for the next Budget. Perhaps the next Budget is not so very far off and may well bring changes which make the present notes obsolete in their infancy.

¹No. 480 (1961), obtainable free of charge at tax offices.

The British Investor and India

Penal Indian Tax Rates on Inter-corporate Dividends

by J. D. PETERKIN, M.B.E., M.A., LL.B., A.T.I.I.

IT is a commonplace, now, that overseas taxation is one of the main factors for consideration when deciding foreign investment and with this in mind it is proposed in this article to analyse the inducements offered by the Indian Government in the shape of tax reliefs. These are, however, conditioned to a great extent by India's economic targets and policy and no account would therefore be complete without at least a very short reference to the latter.

India is an 'under-developed' country in the present-day use of that term. Her basic problem is the rapid growth of her population which constantly threatens to outrun her food supplies and the possibilities of employment. The intense desire of her Government for industrialization and the higher standard of living it promises, has led to an urgent demand for capital and technical expertise which cannot be satisfied from her own resources. Her foreign exchange position is weak: each year she has a substantial trade deficit even with imports cut to a minimum by an extensive complex of restrictions, and in recent years she has borrowed heavily from abroad. Put another way, India offers a vast potential market but for the foreseeable future she is going to be faced with exchange shortages, import restrictions and heavy taxation to meet the cost of her economic advance.

The picture is admittedly simply drawn; even so, it will help the investor to understand why in the sphere of Indian taxation many so-called inducements are to a great extent illusory and why Indian tax rates are relatively so heavy. It should be in her interest to attract foreign capital by favourable tax concessions but, at the same time, she has to discourage any excessive outflow of dividends and royalties with a view to conserving her foreign exchange reserves and securing their retention in India. If that is borne in mind, the main trend of Indian taxation policy in so far as it affects British investors becomes intelligible, although it may not be attractive to the private investor.

Investment Incentives

The main incentives offered to foreign investors may be listed as follows:

- (i) Exemption from tax of interest on foreign loans.
- (ii) A 'tax holiday' on a proportion of initial profits for new businesses.
- (iii) Exemption from supertax of dividends from companies engaged in specified basic industries.
- (iv) A substantial development rebate in regard to expenditure on machinery and plant.
- (v) Reduced tax rates on dividends from non-subsidiary companies after April 1961.
- (vi) Exemption from tax on foreign technicians.

The Sugar and the Pill

Interest payable by any industrial undertaking in India on loans taken from such foreign institutions as are approved by the Indian Government or on debts incurred abroad for the purchase outside India of capital plant and machinery on deferred payment terms previously approved by the Government, is completely exempt from Indian tax. Generally speaking, the conditions necessary for such approval are that the repayment of the loan or debt should be spread over at least five years and that the rate of interest charged by the foreign financier or firm is reasonable in relation to the Bank rate prevailing in the country from where the lender is operating. This concession, it should be noted, applies to any foreign supplier or financial institution, including the foreign parents of any Indian subsidiary. The snag, of course, lies in the extended length of the credit.

The 'tax holiday' provisions of the Indian Income Tax Act apply to new industrial undertakings established in India. Profits of such new undertakings are exempted each year for the first five years from both income tax and supertax up to a minimum of 6 per cent of the capital employed, i.e. paid-up capital plus reserves or, in other words, the net worth of the undertaking.

On the face of it this concession seems substantial. In reality, however, it is largely ineffective. It assumes, in the first place, that a new undertaking matures immediately on its establishment and that, any industrialist will confirm, is very unlikely. Losses in the formative years together with development rebate and depreciation allowances carried forward will, in many cases, frustrate the good intentions behind the concession. But if there are profits to be taxed in the early years, the 6 per cent exemption is tied to the year of assessment; it is not cumulative to the extent that the new project might hope to enjoy tax freedom of 30 per cent in the last year of quinquennium.

The exemption from supertax of dividends from companies engaged in major basic industries does appear, however, to be attractive. Company income tax is 20 per cent or 4s in the £ and this applies to both Indian and foreign shareholders. These industries have been itemized at great length in Section 56A of the Indian Tax Act, and for reasons of space, cannot be fully dealt with here. Suffice to say that they include industries manufacturing derivatives of coal, iron and steel, power fuels and oil, chemicals, specified types of industrial machinery, machinery for generation of electrical energy, paper, internal combustion engines and pumps, automobiles and electrical motors, locomotives and rolling-stock, machine tools and agricultural implements. The benefits of this concession are, of course, adversely affected by the United Kingdom unilateral double tax relief provisions because British investors have to pay the higher of the two rates of taxation (i.e. the United Kingdom) but that is no fault of the Indian Government.

Expansion Stimulant

The development rebate in respect of expenditure on machinery and plant is somewhat similar in conception to the British investment allowances. The rebate is equal to 25 per cent of the cost of all new plant and machinery installed in a business and that means any business. It is not taken into account in computing the written-down value of the assets upon which ordinary depreciation is allowed and is therefore intended to be a direct incentive for stimulating expansion of productive enterprise in the country. As one might expect, there are strings. The first condition is that an amount equal to 75 per cent of the rebate must be debited by the undertaking to its profit and loss account and credited to a reserve account. A second condition is that the asset in

respect of which the rebate has been obtained is not sold or transferred within a period of ten years from the installation of the asset. The reasoning behind the first condition is that the company concerned should not pass off—or to use the words of the Minister of Finance—‘fritter away’ the tax relief, and there is no restriction as to the utilization of the reserve so created for any purpose within the business itself, except that for a period of ten years it should not be drawn out for distribution by way of dividends or for remittance outside India as profits or for the creation of any assets outside India. It should be noted, however, that it is the intention of the Indian Government to reduce the rebate to 20 per cent from April 1st, 1961.

Rates of Tax

So far, these provisions could, at the risk of straining the meaning of words, be described as incentives for the foreign investor. They may be qualified but at least they are intended as incentives. It is difficult, however, to consider the current and the proposed rates of taxation as anything but substantial disincentives for the British investor and, until they are reduced drastically, it is impossible to see British private investment in India increasing very much above its present low level. Although he denied that any tax concession should be given to the foreign investor as such, in his recent Budget speech the Indian Minister of Finance recognized this in his proposals. Whether he has gone far enough in the measures he proposes for 1961–62 is a matter of opinion. The conclusion of the writer is that he has not and, until he does, it would seem that British private investment will not play a major role in the industrialization of India.

To get the picture in perspective, it is necessary to review the present complex of tax rates and the rates proposed for the period after April 1st, 1961. The latter will not affect investments already made under different assumptions. Under the present law, depending on whether the Indian dividend-paying company is a subsidiary or a non-subsidiary of the British company and the dividend-receiving company is an Indian or a foreign corporation, the rates of tax applicable to dividends vary. From April 1961, it is proposed, however, that there should be a uniform rate of tax, quite divorced from the status of the dividend-paying and the dividend-receiving companies, except where the dividend-paying company is a Section 56A business engaged in a major basic industry. For ready reference the position is summarized below.

<i>Nature of Dividend</i>	<i>Percentage tax on Indian Company shareholding</i>	<i>Percentage tax on United Kingdom Company shareholding</i>
(1) From a Section 56A Indian company	20	20
(2) From a subsidiary Indian company registered before April 1st, 1961	30	30
(3) From a non-subsi- diary Indian com- pany registered before April 1st, 1959	45	63
(4) From a non-subsi- diary Indian com- pany registered be- tween April 1st, 1959 and April 1st, 1961	40	53
(5) From an Indian com- pany whether subsi- diary or non-subsi- diary registered after April 1st, 1961	40	40

It would only be proper to give prominence to the Finance Minister's explanation of this proposal that the future standard tax rate on dividends is to be 40 per cent whether the investor is Indian or foreign. Before quotation, the point should be made that the 40 per cent is made up of 20 per cent income tax and 20 per cent super-tax. He said:

'Under the law as it stands, there is a concessional rate of supertax on dividends received by a parent company from its subsidiary, while inter-corporate investment on a minority basis is taxed at a higher rate. I feel that we should not, through our tax laws, encourage the formation of subsidiaries. Consistently with our broad social objectives, our tax laws should help to enlarge rather than restrict the scope for public participation in all joint-stock companies. I have one more consideration in mind. Because of the more favourable treatment given to income derived from subsidiaries, foreign investors in Indian companies are tempted to ask for a majority holding. The tax on a minority shareholding by a foreign company is substantially higher than on an Indian company with a minority investment. The investment of foreign capital can make a major contribution to our programmes of industrial development. We do not, rightly, give any tax concessions to the foreign investor as such. At the same time, we should not impose a higher tax on inter-corporate investment from outside which comes in with the Government's approval than on similar Indian investment. Having regard to all these considera-

tions, I propose that the rate of supertax on dividends paid on inter-corporate investment, whether Indian or foreign, and whether on a majority basis or a minority basis, should be fixed at 20 per cent. In order that this change does not affect investments already made under different assumptions, the new rate of taxation will apply to investment in companies formed after April 1st, 1961.'

Now, all this is very commendable. The Minister's attempt at simplification and uniformity of the tax rate complex is indeed welcome but it should not be assumed that the lowering of the rate of tax on minority investment is much of an attraction for foreign capital. The aggregate burden of tax on the dividend-paying and the dividend-receiving companies in spite of the proposed reduction is still 67 per cent and this tax burden must surely be one of the highest in the world. A table of specimen figures showing the picture in greater detail appears opposite. It sets out the net return to the shareholder after taxes on profits and dividends have been paid.

It will be seen that the United Kingdom investor in an Indian subsidiary formed before April 1st, 1959, is to lose 5.5 per cent in net return as from April 1st, 1961, while his counterpart in a non-subsidiary Indian company gains 12.65 per cent to a total of 33 per cent. To put it yet more starkly both types of investments pay two-thirds of the profits in tax.

It would seem that the Indian Government does not appreciate even now that, generally speaking, inter-corporate investment is playing an increasingly important role in the industrial and economic development of all countries, particularly the under-developed ones. In particular, with the decline of the managing agency system in India, the need of business firms to use the holding company device has grown. In addition, inter-corporation investment by the parent company in a subsidiary and in a non-subsidiary serves as a useful mechanism for the transfer of funds to those who need them. It is therefore vital for India that the rates of tax on inter-corporate investment are so determined that they not only are not deterrent but are clearly attractive. And the conclusion is inevitable that they are not.

Other Foreign Practices

Reference to the tax practices of other countries show that the Minister has far to go if he wants to attract fresh foreign capital. In all of them, taxation of inter-corporate investment is on a relatively modest scale. In the United Kingdom a resident company pays income tax at 38.75 per cent and profits tax at 12.50 per cent and may

		<i>Existing rates applicable to companies formed before April 1st, 1959</i>	<i>Proposed rate applicable to companies formed on or after April 1st, 1961</i>
(a) Indian subsidiary company with Indian or foreign holding company:			
Taxable profits	.. .. .	100.00	100.00
Income and supertax thereon at 45 per cent	.. .. .	45.00	45.00
Net divisible profits	.. .. .	55.00	55.00
Income and supertax thereon at 30 per cent	.. .. .	16.50 at 40 per cent	22.00
Net to shareholders	.. .. .	<u>38.50</u>	<u>33.00</u>
(b) Non-subsidiary Indian company with Indian shareholding companies:			
Taxable profits	.. .. .	100.00	100.00
Income and supertax thereon at 45 per cent	.. .. .	45.00	45.00
Net divisible profits	.. .. .	55.00	55.00
Income and supertax thereon at 45 per cent	.. .. .	24.75 at 40 per cent	22.00
Net to shareholders	.. .. .	<u>30.25</u>	<u>33.00</u>
(c) Non-subsidiary Indian company with foreign shareholding:			
Taxable profits	.. .. .	100.00	100.00
Income and supertax thereon at 45 per cent	.. .. .	45.00	45.00
Net divisible profits	.. .. .	55.00	55.00
Income and supertax thereon at 63 per cent	.. .. .	34.65 at 40 per cent	22.00
Net to shareholders	.. .. .	<u>20.35</u>	<u>33.00</u>

deduct the income tax from the dividends paid to the receiving company. In the U.S.A. a corporation receiving dividends from another domestic corporation subject to income tax is taxable in respect of the dividends but is allowed a deduction equivalent to 85 per cent of the dividends received and tax is not deducted from the dividends. In France, a parent company, which has been a registered holder since the formation of the subsidiary or for at least two years has held not less than 20 per cent of the capital of the subsidiary, may deduct 75 per cent of the dividends received from its subsidiary from its taxable income.

West Germany imposes a corporation tax on retained profits of 51 per cent and on distributed profits 15 per cent. Dividends received by one company from another are included in profits for tax purposes, but if the recipient company owns at least 25 per cent of the paying company's share capital, the dividends are exempt from further liability. Where, however, dividends received in this way have been taxed at the reduced rate of 15 per cent they are subject in the hands of a recipient company to a 'special corporation tax' of 36 per cent, representing* the

difference between the general corporation tax of 51 per cent and the distributed rate of 15 per cent. And similarly in Holland, where dividends received from companies in which the recipient holds at least 25 per cent of the share capital, are exempt from liability, while in other cases, 15 per cent is payable on distributions. In Canada, Hong Kong and New Zealand, dividends received by a resident corporation are excluded from taxable income if they stem from another resident company which is subject to income tax on its profits. In South Africa, no tax is payable either by deduction or by assessment on dividends received by one company from another and tax is only payable on company profits.

India Out of Step

The above-mentioned examples indicate that not only is the proposed increase for 1961-62 in the rates of tax chargeable on dividends received by a parent company from its subsidiary in one respect quite a retrograde step, but that the whole system of Indian tax rates on inter-corporate investment is at variance with those of other developed and under-developed countries. To

impose a total tax burden of 67 per cent on the profits of a company and its dividends is, to put it at its lowest, inequitable and, at its highest, harsh and oppressive.

The main reason would appear to lie in the political field – the Minister referred to ‘our broad social objectives’ – but surely it is now time to suggest strongly to the Indian Government that if it really wants to encourage the flow of private capital investment, it must take action to bring the Indian tax burden more into line with that of other countries. The total tax burden in these countries already mentioned varies from about 50 per cent to 60 per cent and one would have thought it to be more statesmanlike of the Finance Minister to have prescribed a uniform rate of 30 rather than 40 per cent on dividends from inter-corporate investment, and the 30 per cent could at the same time have been made applicable to all companies, irrespective of the date of their registration. Not only would such a move be blessed by equity, but it would go a considerable way towards simplifying the deduction of tax at source from dividends.

Tax and the Technician

The incidence of Indian tax on expatriate personnel sent out to India by British investors would be heavy and would constitute a major deterrent to investment, were it not for the exemption from tax on the technician’s income; but even with that taken into account, the position is not a happy one. Tax rates are heavy and personal reliefs, particularly in respect of family dependants, insignificant. The cost of living for the expatriate is in many areas high, because his method of life and his requirements for goods and general necessities are West European, not Indian and he does not have the local technique to make the most of his spendable income. In addition, he is heavily prejudiced by the need to meet expenditure for which Indian tax law makes little allowance as, for example, in the additional cost of educating his children in the United Kingdom while he is abroad.

The exemption is a strictly limited one. Where the contract of service is not one which has been approved by the Indian Government, the exemption consists of freedom from tax for the 365 days following the date of arrival. If the contract has been approved, exemption extends to the remainder of the fiscal year in which the technician has arrived, together with the two succeeding years, and from April 1st, it will become three complete years.

Whether this concession will have much attraction for the investing company in the United Kingdom and its technician is open to doubt. It would seem that the exemption is still conditional on non-residence in India in any of the four financial years preceding the financial year of arrival, and that may well exclude a substantial number of technicians. In addition, the statutory definition of a ‘technician’ leaves very considerable scope for argument with the Indian Revenue where no Government approval is involved and with the Indian Government where it is. It is narrow and in general covers only those who are concerned with putting a plant into operation.

Taxes on Royalties

The canvas would not be complete without mention of Indian royalty payments and Indian rates of tax. Up to mid-1960 it was the practice of the United Kingdom Revenue to maintain that the source of such payments was the United Kingdom and that therefore unilateral double tax relief (in the absence of an Anglo-Indian Double Tax Convention) could not be granted in respect of Indian tax deducted at source. Happily, the Revenue then, by way of extra-statutory concession, agreed that unilateral relief would be given and so for agreements made before April 1st, 1961, the effective rate of tax paid will be the Indian rate of 63 per cent.

It is understood from the Indian Finance Minister’s speech that the Indian rate will be reduced to 50 per cent in respect of agreements made, and approved by the Indian Government after April 1st, 1961. The other side of the penny seems to be that the new rate will not apply to the many agreements now in force and that the policy of the Indian Government in approving royalty rates does not err on the side of generosity. Five per cent is in practice considered to be the maximum desirable, while many are as low as 2 or 3 per cent.

Summing-up

To the British investor with funds for employment the incentives offered by the Indian Government are, to a large extent, illusory and the main drawback is the excessively high rate of taxation on inter-corporate dividends. Until the Indian Government changes its policy on that score – and a radical change is called for – much of the attention paid by private investors to the Indian capital market must of necessity be confined to the maintenance and conservation of capital already invested in India.

The Problems of a Group upon the Acquisition of Companies—I

by R. O. A. KEEL, F.C.A.

I. Introduction

THE acquisition of companies by groups is a matter of considerable topical interest. It is also a subject where perhaps more should be known of the forces and factors which make for acquisition, and of the many aspects which are involved in the carrying through of any particular transaction. In the wide ranging consideration that follows emphasis has been laid upon underlying principles; legal and other controlling requirements; the experience of the commercial scene; and a number of points of controversy as yet unresolved.

2. This is a field of operation in which developments are taking place continuously. The contents of this paper represent a review of the situation as we find it today. It is aimed to pass on some hard-earned experience; to put the various problems in their respective places; and to stimulate thought and discussion for the better regulation of acquisitions in the future.

II. The Group

3. It is becoming more and more commonplace to find companies today trading as groups or as part of groups. This is a trend which has many causes but is none the less one which is 'fashionable'. Even very small concerns go out of their way to organize their affairs to become the 'x' group, a step which it is believed enhances their status. The main way in which many companies become groups is by the acquisition of other businesses.

Defining the group

4. In the sense that we are considering the matter here a group may be defined as an association of companies under common control. Often this involves the existence of a principal parent or holding company which has acquired, directly or indirectly, a controlling interest in other companies. Groups

do, of course, arise by the splitting of a unit into departments and the development of those departments into business divisions which may or may not be incorporated as separate legal entities. Also an individual could control a group by separate personal holdings in various companies. There are other forms of groups, such as trade associations or similar loose mutual organizations, which, although coming within the general meaning of the word, are generally excluded from the considerations in this paper.



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The trend towards the group

5. In the world-wide political, economic and industrial expansion which is unfolding before us lies the impetus and the pattern of the trend towards the group. Industrial growth in which the group formation is playing such an important part, was recently the subject of a study made by the Stamford Research Institute of America. Many features were revealed which showed that group formation was taking a significant part in the process of growth. In particular the following were shown to be particularly apparent in 200 groups selected for their exceptional expansion:

- (a) Organizing of programmes for seeking and promoting new business opportunities, involving acquisitions, the splitting and reforming of groups as well as the forming of new organizations.
- (b) Orientation to growth fields and markets, often with incursions into new fields of development through the acquisition of companies.
- (c) Improvement of competitive ability in present lines of business from the growth and the strength of a group formation.
- (d) The existence by reason of the group form of courageous and energetic management willing to take carefully considered risks.

The advantages and disadvantages of a group

6. The main advantages of the group form are:

- (a) The pattern of a group allows for a spread of

interest, a diversity of experience, a broadening outlook on all problems and an increasing awareness of all possibilities. This gives management greater encouragement to take calculated risks.

- (b) It enables decentralization of responsibility, which in turn allows local autonomy. Such arrangements afford first-class training for top management, and give optimum opportunity for initiative.
 - (c) Better individual prospects together with the probability of better rates of remuneration will attract the best brains and services available.
 - (d) Greater efficiency and power can arise through the establishing of horizontal groupings (that is to say, across an industry) or vertical groupings (that is to say, down through a number of successive industries).
 - (e) By grouping a diversified set of businesses a balance can be obtained as an insurance against fluctuations which must naturally occur in any individual trade given a sufficient period of time.
7. The group form and its increasing prevalence has significant dangers and disadvantages and these are:
- (a) There could be a concentration of control of wealth in fewer and fewer hands, and this might be against the public interest.
 - (b) There is a tendency for the stifling of personal initiative, and against the growth of the small business, run perhaps by men of ability and ideas.
 - (c) There is developing a management class (men with professional skills who alone are able to handle large and complex concerns) which has little financial stake in the business concerned apart from their positions of employment—the business often belonging to a relatively unprotesting and often unrepresented body of shareholders.
 - (d) There is a strong possibility, unless extreme vigilance is exercised, of the development of bureaucracy of the worst kind involving a lack of consideration for the employee, the consumer and the shareholder, other than in a most impersonal way. (These charges have been levied against our nationalized industries and these of course are in themselves grouped businesses.)

III. Why Businesses are Acquired

8. The National Institute of Economic and Social Research discovered on a recent analysis covering the years 1949–53 that it was not liquidation but acquisition by another company that was the major cause of corporate 'death'. Acquisition of a company may take place when that company is in a weak position but it may also take place if the company is in a strong position and desires to reinforce itself by

association with another company. Acquisition in the latter case is then nothing but a special form of merger of interests. In the National Institute's analysis, of the eighty-one companies dying by acquisition in the period 1949–53, only ten were making a trading loss in any year between 1949 and the year of their acquisition. With the exception of three further companies, all the remainder (that is sixty-eight of the eighty-one companies) had been paying dividends to the owners of their equity for every year in the period in which they were independent. For the greater part therefore it seems that 'death' for these companies should not be regarded as a sign of failure but rather as a step towards a new (and perhaps better) form of life.

General factors

9. Acquisitions and mergers have been a feature of commerce since its earliest beginnings. In effect most large British companies have grown to their present size in this way. The process of acquisition is a natural one in a system of free enterprise and since it is generally based on the best utilization of physical capacity, managerial experience and available labour, it probably has in the majority of cases proved to be in the national interest. The joining together of near equal units which is the essence of a merger commonly comes about out of what are natural business associations.

10. The following are the major reasons which are usually put forward in support of an acquisition or of a merger:

- (a) To put the physical assets and personnel available to more effective use.
- (b) To rationalize the businesses particularly in times of depression or of acute competition or where large-scale contracts are involved.
- (c) To save capital expenditure through avoidance of duplication of effort.
- (d) To reduce the number and variety of products produced.
- (e) To effect research and development in a period of rapid technical advance. The expense of this initially non-productive expense can often be considerable and may possibly only be borne by the large concerns.
- (f) To achieve the economies of optimum size by immediately obtaining a much larger manufacturing base than the merging companies could provide independently.
- (g) To eliminate competition.
- (h) To form bigger units to face strong overseas competition often under the active encouragement of the Government, as has happened in the aircraft industry.

Post 1945 developments

11. Nationalization, a rapid fall in the value of money and a high level of taxation have been major recent causes in the process of acquisition. These

factors have tended to make acquisition more than usually attractive especially where share prices have failed to reflect the current value of a company's underlying assets. In this connection the rise in property values has a particular significance.

12. After the 1939-45 war many British businesses disappeared overnight under a tide of nationalization. Collieries, public utilities, transport and steel came under public ownership and vendors were left with compensation and occasionally some small part of their original assets. As a result of the Transport Act, 1947, my own company, Thomas Tilling Ltd, sold its transport interests to the British Transport Commission in 1948 for £24,800,000. The capital profit of £21 million was substantially distributed to the stockholders leaving a few non-transport assets (mainly shares in various subsidiaries and property) and about £4 million in surplus funds. The original four main subsidiaries employing 2,000 people has today grown to twenty-eight main companies with over 18,000 on the payroll. The surplus funds in 1948 were all used up by late 1952.

13. Companies which had had their undertakings nationalized were not alone in having surplus funds. Others in industries such as cotton (with a changing economic scene) also were concerned to reinvest. As this reinvesting gathered tempo so many others with a supply of relatively liquid assets were reminded of the desirability of putting their funds to earn a better return. Much of this money was applied in the acquisition of other businesses.

The formula for acquisition

14. The mathematics of success for this reinvestment were simply to use existing liquid or other resources not earning an adequate return (or alternatively to borrow money at a low rate) and to invest in less marketable equities of smaller organizations at a yield to show a margin (and often a substantial margin) over the cost of the finance involved. When resources (either existing or borrowed) became scarce - and this was particularly so during the time of the credit squeeze and when there was a severe restriction on capital issues for cash - acquisitions were often effected on a share for share basis.

An interesting factor which emerges is that as the earnings contributed by the acquisition improve so will the quotation for the acquirer's shares, which in turn makes for a reduced cost for future acquisitions on a share for share basis. The obvious mistake for the acquirer to avoid is the dilution of his finances by involving himself with acquisitions which yield earnings at a lesser rate than the rest of the acquiring group. There are other dangers too for acquirers despite the seemingly favourable terms which are seen day by day. Subsequent success with an acquisition depends among other things on good management relations, the development of successors in management and the provision of additional resources for the development of the acquired concern. It is often the case that retained profits and the additional

moneys added to an existing business never seem to achieve the same scale of return that the original purchase initially promises. I am sure that an economist would read into this state of affairs lessons on the effect of inflation and the law of diminishing returns, while a psychologist might place a good deal upon the loss of incentive which the security of a group brings. Where subsequent difficulties with an acquisition arise as a result of trade recession or on a failure of management to carry out their tasks adequately, corrective action is much more readily applied where there is other management with 'know-how' of the trade of the acquisition in difficulty. This of course presupposes that such other management not only has the knowledge and ability but also the time to come to the aid of the company in trouble.

The private company vendor's incentives

15. The main incentives for the vendor of a private company may be classified as:

- (a) financial
- (b) fiscal
 - (i) general
 - (ii) estate duty and surtax.

16. On the sale of a private company various financial advantages accrue, some to the vendor and others to the company itself. These may be listed as follows:

- (a) If the majority of the shareholders in a company are prepared to sell out they can expect a good price for the whole business as a going concern.
- (b) The sale enables liquidation of personal capitals tied up in the concern without the need to break up the company. Often this can be achieved, particularly on a sale to an industrial holding company, with the maintenance of a working interest in the company for the vendor and his family together with a continuing but minority interest in the equity.
- (c) Should the sale of the shares in the private company be in exchange for quoted shares in a public company this gives the vendor greater marketability of resources.
- (d) Small private companies with limited recourse to financial assistance are generally not fully able to provide fresh capital for expansion when this is required. Unless a sale takes place to an acquirer with funds to support such expansion growth is inhibited.
- (e) The sale of a small organization to a broader group can bring greater security and strength to the operations of the acquired concern. This can affect beneficially the attitudes of suppliers and customers as well as those of bankers, insurers and other professional advisers.
- (f) The company in its new association will derive benefit from improved trade terms, wider good-

will, better chances of exchange of business and 'know-how' and the facility of broadly-based group schemes.

17. The main fiscal advantages of a sale by a vendor of a private company are:

(i) General

- (a) The consideration received for the shares sold will be a capital receipt not subject to tax except in the uncommon case where the vendor is carrying on a business of dealing in shares.
- (b) An accumulation of a company's tax losses can be realized by the sale of the company provided that the acquirer has the assurance that profits may be injected into the company in the future to enable effective use of the losses in the relief of taxation.

(ii) Estate duty and surtax

- (a) Relinquishment of control in the family type of private company (where such company is perhaps the major family asset) with realization in a tax-free manner, will also be of advantage in providing available funds for sudden and heavy calls on the family's resources such as estate duty on a family death without the need for liquidation or a forced sale. Erosion of the family company can take its most severe form in the estate duty. The sale of an interest giving a publicly owned company control of 25 per cent or more of the equity will broadly avoid the possibility of the more penal forms of levy of estate duty.
- (b) A sale of like dimensions will also mean that surtax will no longer be leviable on the company. Such a sale may in fact be made in anticipation of a surtax direction on retained profits.

IV. Prerequisites to Acquisition

The business to be acquired

18. Prerequisite conditions to be satisfied in detail in relation to the business to be acquired can be summarized as follows:

- (a) The acquisition should possess a good management team, unless the acquiring organization has available management capacity. The team should be comprehensive, fully experienced and qualified, and have made arrangements for succession. It should also be prepared to work with and for the new group, and be attuned to the benefits of group association. In some situations these desirable features are to a greater or lesser extent not present, and this must involve either the use of existing group management and/or the creation of a new management team with all its attendant delays and problems. If the acquisition is to be made

overseas this demands either an existing supervisory set-up for the territory concerned, directly or through branches or subsidiaries, or sufficient and adequate personnel to visit, to maintain liaison, to take executive action and to report. The spreading of interests within the United Kingdom carries similar problems, but on a smaller geographical scale.

- (b) The company should either be earning or be capable of earning profits, unless the business is being acquired for its tax losses alone or for the conversion to better account of its major assets.
- (c) The acquisition should be of the right size in terms of both the cost of the acquisition and its earnings. If the company fits into the existing trade of the acquirer, the size of the profits and of the organization may not necessarily be of paramount importance. In most cases the maximum size of an acquisition will be dictated by the ability of the acquirer to control, to finance and to develop the new concern without unduly detracting from the operation of the existing group. A minimum size is also of importance for it is often easier to manage the larger concern. Many smaller firms are unlikely to be endowed with men or equipment adequate to cope with the demands of a growing business. The small business will also in all justification lean most heavily upon the parent and be unlikely to provide an immediate return to pay for this support. However, in a large group very small companies can often fit in well as subsidiaries. Any limits set should be flexible and be varied as the group grows and as trade conditions dictate. Standards of size should be of:

- (i) estimated maintainable future profits per annum (normally before tax, but after all other charges) and
- (ii) the probable total eventual cost of investment. Such cost of investment should include not only the purchase price of the capital initially acquired but also loan capital to be provided and development capital to be sunk over the next few years.
- (d) The nature of the acquiring group and the permissible extent of diversification agreed upon may be other guiding factors, which will perhaps limit acquisitions to particular trades or types of business. If the group is to be diversified in order to even out the effect of variations in fortune of different trades, then size may be ruled by the need to prevent material unbalance between those trades.
- (e) Both world and national economic circumstances must be generally favourable to the acquisition. Trade conditions and prospects in relation to the particular acquisition should appear progressive and the character of the

business to be acquired should be expansionist and forward-looking.

- (f) The physical condition and extent of the assets employed should be appropriate and adequate. Overcrowded factories, poorly sited premises, badly maintained buildings and machinery, lack of room for expansion, or a substantial excess of a profit-earning valuation of capital over net asset values may all, *prima facie*, weigh against an acquisition. Large goodwill figures are not in themselves a deterrent but they do imply greater capital risk and the need for ensuring continuity of management and 'know-how'. Market valuations of fixed assets and other items are not always essential, but if available or deemed desirable should be used to assist in assessing the attractiveness of an acquisition.
- (g) The financial position, results, needs and capacity of the acquisition should be ascertained; the liquidity and capital structure of the concern should be established; and the accuracy of the records produced should be verified.
- (h) The feasibility of a deal should be tested. Many potential transactions fail at an early stage of negotiation on discovering for example that the ideas on price are so far apart as to be unbridgeable.

Growth potential

19. Many of the points made in the preceding paragraph pose the question as to whether and how it is possible to recognize growth potential. Conditions in businesses which, *inter alia*, are likely to indicate growth possibilities are:

- (a) Unused capacity in buildings and equipment. This may permit a rise in production and sales without a corresponding rise in capital invested. It may be reflected in a relatively low return on capital employed.
- (b) A prospect of expanding output at a falling capital cost. This may arise from economies in production, in management, or in marketing, from operating on a larger scale.
- (c) Technological advance and other means to improve efficiency. This can bring a higher rate of growth in output, sales and profit than the rate of capital investment involved. The technical progressiveness of a firm points to the possibility of further innovation toward the raising of the rate of return upon capital employed. Readiness to innovate is in itself an indication that the management is alive. An active and lively management will secure economies both by innovating and in other ways. (Infant industries and the firms in them can and do encounter a wide variety of technological teething troubles, although these must become less important in time. It

may be that competitors who move into such an industry after the pioneers have had only a modest reward for their heavy expense on research and development are in the better situation. However, initiators may score by the establishment of goodwill and by being first in the field but these could be illusory advantages from the overall economic point of view.)

- (d) The power of a firm to attract good managers and executives often demonstrates that the firm is growing. Stationary or declining industries or firms will not get the best men.

The acquirer's needs

20. There are a number of prerequisite conditions for an acquisition that particularly concern the acquirer:

- (a) The necessary purchase consideration must be to hand. This is often in cash, in shares, in debentures or more rarely in kind.
 - (i) Cash may be from current resources, from borrowings, or from an issue and subscription of new share capital. Section 54 of the Companies Act, 1948, prohibits (with certain prescribed exceptions) the direct or indirect giving of financial assistance for the acquisition of a company's shares or those of its holding company. This precludes the borrowing by the acquirer of any surplus moneys owned by the acquired company in order to pay for the acquisition. In my own group where the holding company literally is acting as banker for the surplus finances of the group, such borrowing is made frequently. However, we have been advised that if payment for the purchase is made out of a generality of funds (which may include the acquired company's surplus either immediately or as a reimbursement later) this does not contravene Section 54. Apparently there is not a breach of this section unless the facts show a clear and direct application of the surplus moneys. However, each case has to be looked at carefully with legal advice where any possible doubt exists.
 - (ii) The issue of shares, of whatever class is considered appropriate, assumes that there must be adequate authorized capital. If the shares are to be quoted and dealt in, successful application to the stock exchange must be obtainable. Arrangements for the sale of shares or other scrip after their issue as consideration, perhaps over a protracted period is often a condition precedent to a deal. Otherwise - particularly where a large issue is involved - a sudden and heavy off-loading on to the market could have a depressing effect on the market price of the

issuing company's shares, including those newly issued.

- (b) Should a company which is to effect an acquisition seek the prior approval of its members? Two points may be considered here, both of which are referred to under Head No. 5 in the Council's memorandum (dated June 1st, 1960) to the Jenkins Committee. One involves responsibilities arising on fundamental changes in a company's activities and the other with the duty of the issuing of shares. Perhaps here I may quote the memorandum:

'Fundamental Changes in a Company's Activities'

SUBMISSION

The main fields of activity in which a company and its subsidiaries operate should be stated each year in the report by the directors to the shareholders or in a statement accompanying that report. The report should also state any changes in the main fields of activity since the last report. The Board of Trade should have power to exempt from this requirement if the directors satisfy the Board that it would be harmful to the company to give the information.'

'Issue of Shares'

SUBMISSION

The specific approval by the company in general meeting should be required for an issue, to anyone other than the present shareholders, of equity share capital carrying voting rights or of non-equity capital with voting rights (other than rights arising only in special circumstances) or of share or loan capital which is convertible into equity capital or confers the right to subscribe for equity capital, if in any of these circumstances the issue is of a significant amount, say more than 25 per cent of the issued equity capital prior to the new issue.'

Normally of course acquisitions are the responsibility of the board of directors within their powers under the memorandum and articles. It is clear from these submissions that a closer check on these powers is deemed advisable. Certainly there have been a number of curious instances over recent years where companies have changed direction (albeit within their widely drawn objects clause) without a second thought for the members, and where large blocks of stock have been allotted to give virtual control to some other group.

(To be continued.)

Appendix A

SUGGESTED CONTENTS FOR A REPORT ON AN INVESTIGATION FOR THE ACQUISITION OF A BUSINESS

(1) Introduction

This will generally describe the parties involved, give a brief résumé of the intended deal and the negotiations so far.

(2) Share capital

Details should include information as to any classes of capital; amounts authorized and issued; capital, dividend and voting rights; analysis of present shareholdings, including details of holdings by would-be vendors and the effects of the gearing of the different classes of capital.

(3) Descriptions of business involved

(4) Departments, divisions and subsidiaries

A family tree of the structure of the business should be prepared showing relationships and functions.

(5) Directors and management

This should list names, duties, ages, service and remuneration of directors and executives, the structure of the management and the pattern of control, together with management succession plans.

(6) Staff, labour and personnel practice

Under this heading information will be given on the numbers and categories of employees, methods of remuneration, agreements with trade unions, training and recruitment policy and availability of labour. Current practice in pension, welfare and other personnel practices will also be dealt with.

(7) Products, trading status and reputation

In this section there should be details of products, spread of customers, trade factors and such matters as the repercussions of free trade in Europe, trade-marks and patents, and trading developments.

(8) Sales, marketing and competition

Sales should be analysed into main categories and figures given for a number of years. Trends and comparisons should be shown. Methods of selling and marketing should also be dealt with. Information on competitors and relative shares of the market will be included.

(9) Buying, production and research

The availability and supply of materials as well as any special arrangements on forward buying will be considered. Reference should also be made to production estimates and capacity, and work being effected on research and development.

(10) Economic/political factors

This covers such matters as economic conditions and prospects for the industry and the effect of restrictive practices and the possibility of nationalization.

(11) Profit record

The record should extend over at least ten years or some other significant and protracted period and refer to gross margins in product groups, net margins, expense equalization policy, depreciation, stock and debtor provisions, profit trends, record of profits before taxation, tax charges, tax equalization policy, the dividend record and reserve appropriation, return on capital, sources and uses of funds, and special capital profits.

(12) Land and buildings

Stating for each major item – the description, condition and history, book and current values, depreciation, insurance cover and development rights.

(13) Plant, machinery and vehicles, fixtures and fittings

For each of the different categories, the policy and record of replacement, depreciation and maintenance should be given, also current values and insurance cover.

(14) Stocks and work in progress

Description and comment on the main grades should be dealt with. Bases of valuation, control systems and turnover ratios should also be considered.

(15) Debtors and creditors

Special note should be made of credit terms, legal and contractual disputes, contingent liabilities, and turnover ratios and bad debtors.

(16) Investments**(17) Financial arrangements**

This will deal with the provision of finance of all types including loans; accounting systems; insurance arrangements; and special fiscal points affecting the company, such as surtax, estate duty, purchase tax and stamp duty.

(18) A summarized statement of the net assets to be included in the deal

The items in this statement will be at book values. Future tax will normally be dealt with as a contingency and deducted from net assets but it should also be recognized as a temporary fund in use in the operation of the business. Loans to the company from proprietors, if they are not to be repaid, will usually be taken over by the acquirers and should be classified as capital. Current values, if known, should be set down as a note and commented upon in relation to book values where differences are significant. Profits or losses since the last audited balance sheet should be included as also should distributions and new funds introduced.

(19) Future plans

These will cover proposals in hand or in mind for business development, capital expenditure, finance and profits.

(20) Maintainable future profits

This is the level of profit before tax which may be earned from present capacity in the new circumstances. It will exclude, for example, factors which have previously affected profits such as proprietors' salaries but which will no longer apply, and will include such new executive charges as are to replace them. Savings and profit to be achieved from group association will not be included since this is the acquirer's contribution.

(21) Valuation of business

Valuations should be expressed on both 'assets' and 'earnings' bases and for a range of yields in the latter instance, and the results converted into share values.

(22) Comparative profits and yields of similar businesses**(23) Proposed terms of deal****(24) Recommendation**

Decimal Currency

Memorandum to the Government by The Institute of Municipal Treasurers and Accountants

In November 1960 the Earl of Dundee in the House of Lords intimated that the Government would welcome expressions of view on the question of the decimalization of the currency. The following memorandum has been submitted by the Council of The Institute of Municipal Treasurers and Accountants in response to that invitation.

1. The Institute of Municipal Treasurers and Accountants is the professional body of accountants in the service of local and public authorities and numbers among its members the chief financial officers of all the important local authorities in the country and of a great many of the smaller ones.

2. The financial transactions of local authorities are collectively considerable and diverse: their expenditure on revenue account alone amounts to some £1,630 million. Many of the transactions are in cash – the collection of rates, housing rents, payment of school meals and many other items which are in most authorities relatively small in amount, but numerous. Local authorities pay out over £780 million in salaries and wages each year; and receive over £530 million in rate payments and over £517 million in housing rents and other income. Because of the wide variety of the services provided by local authorities the book-keeping and accounting requirements are complex. Most authorities of any size have for many years made full use of mechanized accounting systems, including more recently electronic methods. •

3. It follows that members of the Institute as a body will have a vital concern in any change in the country's currency system both as accountants and as local government officers involved in many financial transactions with the public.

4. The Institute Council has given careful consideration to the recent report of the joint committee of the British Association for the Advancement of Science and the Association of British Chambers of Commerce, and other views that have been expressed from time to time. In the light of these and the financial experience of its members, the Council is firmly of the opinion that this country should change to a decimal currency.

5. The advantages of a decimal currency in operation are generally agreed to outweigh the few disadvantages (the relatively greater difficulty of making certain mental calculations in everyday transactions for instance), and the Council thinks that everyone concerned with finance and accountancy would accept that the economies are considerable.

6. Changing from an established system is, however, another matter, and there is no doubt that the transition will be costly and complex. But the Council thinks that the long-term economies to be gained are such as to make it worth while incurring these costs.

7. There is no doubt, however, that with the rapidly increasing investment in accounting machinery designed to operate on the present system the probable

cost of transition will grow as time goes by, and the Council urges that the Government should make an early decision on the subject. Assuming the Government decides on the change, an early announcement of the date on which it is to take place should be made. This should allow adequate time for the details of the transition to be worked out, and for some advantage to be taken of normal machinery replacement programmes, so that the cost can be minimized.

8. A number of possible alternative decimal systems have been proposed. The Council does not accept the view that has been expressed that a system retaining the pound at its present value is essential to the prestige of British currency in world trade and feels that the psychological factors have been exaggerated. For practical reasons, the 'ten shilling/cent' system, which would mean the abandonment of the present value of the pound, appears to the Council to be the most satisfactory of the alternatives.

9. The 'pound/mil' system, which does retain the present value of the pound, has the disadvantage that it requires three places of decimals and although this would facilitate conversion, in general use it would be cumbersome and difficult for the ordinary person to comprehend. In addition, in most transactions, the significance of one digit in the third decimal place (equivalent to the abandoned farthing) would be very small.

10. The 'ten shilling/cent' system would provide for a new unit worth ten shillings and a cent equivalent to 1.2d. The cent would not be a small enough unit for many transactions at present and a half-cent would be required. For finer calculations an extra decimal point (the mil as in the United States) can be used, but in general use only two places would be necessary. This system would be simpler in use than the alternative, and would be far easier to convert to, as the present coinage could continue in use. Under either system there would of course be some upsetting of relative values.

11. The Council consider that the name of the new unit would be of some importance and think that it should be a short single-syllable word. In fact, there are good reasons why the term 'pound' should be retained, and there are no insuperable difficulties in the hundredth division of a pound being called a penny.

12. In conclusion, the Council would again remind the Government of the enormous size of the transactions in which members of the Institute are engaged on behalf of local and public authorities. If and when a board or committee is appointed to work out the transitional details of a change to the decimal currency the Institute would hope to have the opportunity of representation so that it can place at the Government's disposal the whole of the knowledge and experience of its members.

Weekly Notes

P. D. Leake Research Fellowship

MR T. W. McRAE, C.A., A.C.W.A., has been appointed to a P. D. Leake Research Fellowship tenable in the University of London at the London School of Economics and Political Science for the academic year 1961-62. Mr McRae, who is with I.B.M. (U.K.) Ltd, proposes to conduct research into 'the effect of electronic computing techniques on the future of accounting'.

The P. D. Leake Trust is a charitable trust created under the will of the late Percy Dewe Leake (a member of The Institute of Chartered Accountants in England and Wales from 1886 until his death on November 27th, 1949) for the benefit and advancement of the sciences of accounting and of political economy including the subject of public finance and taxation. The P. D. Leake Committee decided in 1956 to provide funds for the establishment of P. D.

Leake Research Fellowships. The object of the Fellowships is to provide university facilities for experienced accountants to carry out research in subjects with which the accountancy profession is directly concerned within the charitable object of the Trust.

I.M.T.A. Favours Decimalization

IN a subjective memorandum to the Government - reproduced on other pages - the Council of The Institute of Municipal Treasurers and Accountants expresses the firm opinion that the United Kingdom should change to a decimal currency. Local authorities, it is pointed out, spend some £1,630 million per annum on revenue account alone including £780 million in salaries and wages and receive over £1,047 annually in rates, rents and other income. These vast sums are made up, in the main, of many small amounts. It is therefore clearly to the advantage of their staffs to work in a currency which would entail the greatest simplicity in calculation and tabulation.

The Council are at one with The Institute of Chartered Accountants in England and Wales in considering that, psychological and prestige factors notwithstanding, the pound should be abandoned in favour of the ten shilling/cent system. The cent would be worth 1.2d and a half-cent would have to be introduced to facilitate small transactions. For finer calcu-

lations, an extra decimal place could be used (as is the mil in the United States) but, in general, two places of decimals would suffice. Finally, the Council stresses that the new ten-shilling unit should have a short name and suggests that it and the cent should assume the titles of pound and penny. While this is impeccably sound in theory, it would be initially difficult to put into practice. An essential prerequisite to introducing a system of decimal currency is to ensure that the public has a complete appreciation of the values of the new denominations in relation to those of the old. To have to explain that the pound was going to become ten shillings and that ten shillings was going to become a pound and that a penny would still be a penny while becoming six-fifths of a penny would further complicate an already intricate operation.

Institute Appointment

AS announced in the proceedings of the Council of The Institute of Chartered Accountants in England and Wales, reported on other pages in this issue, Mr Maurice Comber Ashill, F.C.A., has been appointed an Under-Secretary of the Institute.



Mr M. C. Ashill

Mr Ashill qualified as a chartered accountant in 1951 when he was already an incorporated accountant, having qualified in 1933. Before joining the Institute staff he was Assistant Chief Accountant (Finance) with the British Broadcasting Corporation, responsible for the Corporation's budgets and the co-ordination of its accounts. In 1958 he attended a course at the Administrative Staff College at Henley on Thames.

No Coal from U.S.

LAST week the Government announced that it had turned down the Steel Company of Wales' application for a licence to import cheap coking coal from the United States. The President of the Board of Trade said that he had not prejudged the future in this decision but that it would involve a major departure of policy to allow the importation of coal. In the last year the Steel Company of Wales has applied on two occasions for permission to import coking coal and has been refused each time.

There has been a difference in opinion as to how big a saving per ton would be achieved by importing this coal but there has been no disagreement, not

even from the National Coal Board, that there would be some saving. The Minister of Power has had strong representations from the National Union of Mine workers, however, opposing the application and there was a threat to strike in South Wales if permission were granted.

This issue is tied up with a number of major questions and, since politics is the art of the possible, it is perhaps not surprising that the Government has preferred not to make an issue at the moment of cheap-versus-dear coal. The decision as to whether the American coal should be imported on this occasion would have involved a controversy on long-term fuel policy and a serious clash with a big union. The decision last week, however, by the Government to enter into negotiations for admission into the Common Market will certainly raise the question of exposure of United Kingdom industry to sterner foreign competition. The Government will probably not come in for a great deal of criticism for choosing to fight this vital battle on another day. For the moment, protection and vested interests have won out against cheap imports and an opportunity of lowering the cost structure, at least in some degree, of a vital industry, namely, steel-making.

India's Third Five-year Plan

THE Government of India has announced its third Five-year Plan. It caters for a total expenditure of £8,700 million with an investment of £7,800 million which is estimated to produce enough food to meet the country's requirements over the next five years. It also envisages creating 14 million new jobs.

The main targets are a 30 per cent increase in food output, a 163 per cent advance in steel output and a 70 per cent rise in the output of petroleum products. It also looks forward to a 47 per cent increase in pupils in schools. Despite the large increase in the number of jobs to be created, it is not expected that the country will be anywhere near full employment by 1966. The Plan admits to an unemployment level of 12 million by that year. This figure looks very large indeed until it is recalled that India's population increase over the next fifteen years is expected to be 187 million. By 1966 the population of India is expected to go up by 54 million. Such figures as these indicate the immensity of the effort required by India even to maintain the present inadequate level of income per head.

Total foreign exchange required is put at £4,313 million, including £1,950 million in foreign aid.

New Airport Authority

ANEW Airport Authority is to be set up to run Heath Row, Gatwick, Stansted and Prestwick airports according to a Government White Paper (Cmd. 1457 - price 9d) issued last week, called *Civil Aerodromes and Air Navigational Services*. Announcing the creation of the new authority, Mr

Thorneycroft, Minister of Aviation, said that the Government intends to hand over the management of seven provincial airports to local ownership as well. He has gone one stage further than the Estimates Committee by including Prestwick.

There are at present twenty-five municipal and forty-eight private aerodromes licensed for public transport as well as twenty-two state-owned airports. It is envisaged that there will be four groups of airports. Group 1 are the so-called international airports mentioned above. Group 2 are the seven provincial airports so called, comprising those at Aberdeen, Belfast, Blackpool, Bournemouth, Cardiff,

Edinburgh and Glasgow. Group 3 consists of eight small airports in the Highlands and islands of Scotland, and Group 4 are aerodromes serving the Isles of Scilly. In the case of local authorities, the Government is prepared to accept the principle that where the financial burden would be heavy, some help from the Exchequer may be expected, but applications will be strictly examined to discover whether the airport is indispensable to the national transport scheme. It would seem from this that in the event of financial embarrassment, a provincial airport could not assume that it will receive a subsidy to preserve its existence as a matter of course.

This is My Life . . .

by An Industrious Accountant

CHAPTER 84

OUR newly-appointed internal auditor has a remarkable knack of noticing those little sins of omission and commission which creep imperceptibly into every accounting organization. This is undoubtedly a useful function. Its only drawback is that the discovery of an error leads to friction in the field of human relationships.

He came up recently with a report on his scrutiny of our cashier's records. One of the company's rules is that the cashier must not accept IOUs, nor make unauthorized cash advances, yet he had taken three big IOUs back in April, all from the deputy-chairman. Furthermore, they had been posted out of his cash-box as a debit to a suspense account in 'Sundry debtors', where they had since lain undisturbed and unreported.

I asked my departmental accountant for his comments, since both cash and debtors are under his control. He was a little aloof at first. He's a plump, placid, easy-going character of considerable ability and experience, who has advanced in his career by never contradicting his superiors, never criticizing his colleagues openly, and never hustling his subordinates. He is well liked, I think, but he buys popularity by appeasement.

Now he side-stepped adroitly. Yes, he had probably been advised of it, but he thought it had been all cleared up long since; he'd speak to the ledger clerk when that individual returned from holidays; just leave it to him. I was about to, when the cashier interrupted indignantly.

He had certainly advised the departmental accountant, he said, at least twice - when he accepted the IOUs, as well as when he transferred them, as he didn't want to take the responsibility of questioning a director's dealings. His record in the matter

was quite above-board, he stated. And the internal auditor, in defence of the absent ledger clerk, pointed curtly to two pencilled scrawls on the suspense account margin, 'reported to D.A. 17/5/61' and 'ditto 23/6/1961'. It was apparent that the D.A. had been stretching a point, and stretching the truth as well.

The amounts weren't alarming, and the deputy-c.'s credit being beyond reproach, my mild annoyance was occasioned only by the D.A.'s hedging. I suggested to him that he'd better contact the director immediately and get the IOUs cleared promptly. He licked his lips shiftily for a moment. It was a matter for the ledger clerk next week, he said, or else for the cashier who had started the trouble.

It reminded me of the old story of the angry Scottish lords meeting to decide to liquidate the unworthy favourite of King James; the sudden silence when a volunteer was needed, and the old lord's satirical fable of the mice agreeing to bell the cat. Neither accountant nor cashier was willing to move. The latter claimed, fairly enough, that his function had ceased when his superior approved the transfer to suspense account. The former had an apparently reasonable outlook: he wanted his subordinates to stand on their own feet; it wasn't his place to bell their cats for them.

The worry in the back of my mind was that his subordinates have never yet seen him with his own fingers scratched for their sake; if he'd give them a lead just once, it would be a real step forward. Furthermore, the obvious general fear of the deputy-c. intrigued me.

At this stage, the internal auditor interrupted, with a quick cock of his chin and fire in his eye, to say he'd do it. He would, too, he's the type who dares. ('Whereupon the great Earl Archibald Angus swore with a mighty oath that he and none other would bell the cat.') The D.A. was agreeing enthusiastically with this solution, so I had to intervene and disagree. It was the D.A.'s problem; he must approach the director himself, personally or by letter; sorry, but that was that.

He looked daggers as he went out; the developments should be interesting.

	£	1960 £	£
Trading Balance of the Group or the year, after charging Directors' Remuneration but before charging the items below and provisions for exceptional losses			954,934
<i>Add: Investment Income (Gross):</i>			
Trade Investments		7,423	
Other Investments		31,300	
			38,723
<i>Deduct:</i>			993,657
Depreciation		360,657	
Loss on sale of assets of Overseas Subsidiary Company ..		19,569	
Staff Pension Scheme		137,135	
Audit Fees		9,945	
			527,266
			466,351
<i>Add:</i>			
Taxation overprovided in previous years		254,657	
<i>Less: Taxation for year:</i>			
Income Tax	6,883		
Profits Tax	7,586		
Overseas Taxation	25,393		
		39,862	
			214,795
Balance brought forward from 1959			1,077,134
			1,758,280
<i>Deduct:</i>			
Transfer to Investments Reserve		9,070	
Amount paid under deed of covenant, less Tax to A.E.I.-John Thompson Nuclear Energy Company Limited	59,596		
<i>Less: Transfer from Nuclear Contracts Reserve</i>	<u>59,596</u>		
Dividends, less Tax, for the year 1960, of John Thompson Limited		86,256	
			95,326
			1,662,954
<i>Deduct:</i>			
Provision for anticipated exceptional losses in Subsidiary Companies:			
On Berkeley Nuclear Power Station Contract (See Note 1)	1,687,000		
On Australian Contract (See Note 2)	<u>516,000</u>		
		2,203,000	
Provision for terminal loss of Overseas Subsidiary Company (See Note 4)		60,000	
		2,263,000	
<i>Less: Transfer from General Reserve</i>		<u>610,000</u>	
			1,653,000
<i>Deduct:</i>			
Transfer to Nuclear Contracts Reserve			
<i>Less: Transfer from General Reserve</i>			
Balance carried forward to 1961			£9,954

for this apparent contradiction is that a large sum is outstanding on account of progress claims submitted, which at March 31st had not been paid.

CITY NOTES

HAVING been followed in quick succession by the Common Market decision and by the impact on the stock-market of the new Trustee Investments Act, the 'Little Budget' is in danger of being submerged as an investment factor. One point likely to assert itself, however, is the severity of the curb on bank credit.

Bank money bids to be harder to raise than it was even in 1955 when the 'credit squeeze' was severe enough to put heavy pressure on working capital needs. This time the squeeze on the banks themselves has been reinforced by a call for Special Deposits at a time when the banks' ability to sell investments is particularly curtailed.

Bank lending is in the process of being cut down to the barest essentials and, while outstanding loans are most unlikely to be called in, borrowing limits are likely to be reduced.

The new squeeze may well sound the death knell of personal loans. The banks have been quietly playing down personal loan business for some time and for the present it is 'definitely out'. It seems doubtful whether this type of lending will ever be cultivated again to the extent it was when it was launched two years or so ago.

Personal loans apart, however, the current squeeze on bank credit will prove more severe than many at present seem to think.

RATES AND PRICES

Closing prices, Wednesday, August 9th, 1961

Tax Reserve Certificates: interest rate (26.11.60) 3%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 27, 1961	7%

Treasury Bills

June 2	£4 8s 9·61d%	July 7	£4 10s 8·80d%
June 9	£4 9s 4·14d%	July 14	£4 11s 4·47d%
June 16	£4 10s 0·42d%	July 21	£4 12s 5·62d%
June 23	£4 10s 8·47d%	July 28	£6 13s 9·22d%
June 30	£4 10s 8·94d%	Aug. 4	£6 14s 3·33d%

Money Rates

Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6¾%
Fine Trade Bills		3 months	6½-6¾%
3 months	7½-8½%	4 months	6½-6¾%
4 months	7½-8½%	6 months	6½-7%
6 months	8-9%		

Foreign Exchanges

New York	2·80½-¾	Frankfurt	11·20½-¾
Montreal	2·89½-90½	Milan	1740½-¾
Amsterdam	10·11-¼	Oslo	20·01½-02½
Brussels	139·62½-63½	Paris	13·81½-¾
Copenhagen	19·34½-35	Zürich	12·11½-¾

Gilt-edged (revised List)

Consols 4%	57½	Funding 3% 59-69	79
Consols 2½%	37½	Savings 3% 60-70	75½
Conversion 5½% 1974	89	Savings 3% 65-75	66½
Conversion 5% 1971	87½	Savings 2½% 64-67	81½
Conversion 3½% 1969	80½	Treasury 5½% 2008-12 82xd	
Conversion 3½%	51½	Treasury 5% 86-89	80½
Exchequer 5½% 1966	96½	Treasury 3½% 77-80	66½
Funding 5½% 82-84	89	Treasury 3½% 79-81	65½
Funding 4% 60-90	86½	Treasury 2½%	37½
Funding 3½% 99-04	55½	Victory 4%	92½
Funding 3% 66-68	79½	War Loan 3½%	52½

Current Law

Class Gift: Distribution Period

BY a settlement made in 1931, the settlor in *Re Wernher's Settlement Trusts, Lloyds Bank Ltd v. Mountbatten (Earl)* ([1961] 1 All E.R. 184) declared:

"The trustees shall hold the fund in trust for all such of the children of the settlor (whether now living or hereafter to be born) as being male attain the age of 21 years or being female attain that age or marry and in such proportions that each son shall receive twice as large a share as each daughter."

The settlor, who was still alive, had three children, the eldest a son, who had died, and two daughters. All had attained the age of 21. The trustee of the settlement applied for determination of the question whether on the true construction of the settlement the rule in *Andrews v. Partington* ((1791) 3 Bro. C.C. 401) applied to it, and the trust fund was accordingly

distributable, or whether any future children of the settlor would be entitled to benefit under the trust.

Applying *Re Bleckly* ([1951] Ch. 740), Buckley, J., held that in determining whether the rule applied to a disposition by settlement, the settlor must be taken to have framed his trust with the rule in mind unless it was found that his language was such that it would exclude the operation of the rule. Applying *Scott v. Earl of Scarborough* ((1838) 1 Beav. 154), his lordship held further that where in a settlement such words of futurity as 'hereafter be born' were used in describing a class of children who were to benefit, and the words were capable of being given an intelligible and effective meaning by relating them to the period between the date of the deed and the date of distribution, when the first member of the class attained a vested interest, it was proper to relate the words of futurity to that period and so to confine the class of children born before that date of distribution. Applying *Re Chartres* ([1922] 1 Ch. 466), his lordship held that a trust for a class of persons who should attain a certain age and for such person in shares was a trust which involved a distribution between those

persons for the purposes of the rule, even though the trust instrument did not expressly direct the distribution at any particular time.

Option Void as a Clog

THE plaintiff in *Lewis v. Frank Love Ltd* ([1961] 1 All E.R. 446) mortgaged his land to secure an advance of £6,000. The personal representatives of the mortgagee called in the loan, and the plaintiff negotiated with the defendant company for a loan of £6,500. The defendant was only prepared to advance this sum if the plaintiff agreed to give it an option on part of his land. The parties therefore entered into an arrangement whereby the defendant took a transfer of the mortgage, and by a contemporaneous written agreement the plaintiff granted the defendant an option to purchase part of the plaintiff's land at any time within two years, on condition that the defendant would not call in the loan during that time.

The defendant purported to exercise the option, not having at that time paid to the plaintiff the whole of the sum of £6,500, and the plaintiff sought a declaration that the written agreement and the contract alleged by the defendant to have been created by its purported exercise of the option contained therein was not binding on the plaintiff and was void, and a declaration that, notwithstanding the agreement and the purported exercise of the option, he was entitled (on repayment of the amount which he had received from the defendant with all proper interest, costs and charges) to redeem the whole of the mortgaged land.

Plowman, J., held that the principles on which the Courts have held that a clog on the equity of redemption is void apply just as much to a transfer of a mortgage, where one of the terms of the arrangement is that the transferee shall have an option to purchase part of the mortgaged property, as to the case where the clog is imposed as part of the original mortgage transaction. Accordingly, the plaintiff was entitled to succeed. His lordship observed that the doctrine of a clog on the equity is a technical doctrine which is not affected by the question whether in fact there has been oppression.

Imperfect Trust Provision Validated

THE testator in *Re Wykes' Will Trusts, Riddington v. Spencer* ([1961] 1 All E.R. 470), who died in 1947, gave a share of his residuary estate to the directors of a named company 'to be used at their discretion as a benevolent or welfare fund or for welfare purposes for the sole benefit of the past, present and future employees of the company'. The validity of this bequest could only be upheld if it was 'an imperfect trust provision' within Section 1 (1) of the Charitable Trusts (Validation) Act, 1954, which provides:

'In this Act, "imperfect trust provision" means any provision declaring the objects for which property is to be held or applied, and so describing those objects that, consistently with the terms of the

provision, the property could be used exclusively for charitable purposes, but could nevertheless be used for purposes which are not charitable.'

Buckley, J., having pointed out that the persons to be benefited were the employees of a company, so that the only application of the fund which would be legally charitable would be of a kind calculated to relieve the poverty of the beneficiaries, said that the relief of poverty would certainly be an object of a benevolent or welfare fund, and clearly came within the term 'welfare purposes'; accordingly if the bequest were valid, the directors of the company could, consistently with its terms, apply the whole fund for relieving poverty amongst employees or former employees of the company. In other words, they could apply it all for charitable purposes, notwithstanding that they might consistently with the terms of the will use it all for purposes which were not charitable. His lordship held that the bequest was 'an imperfect trust provision' within Section 1 (1) and therefore validated by Section 1 (2). He rejected the view that 'an imperfect trust provision' must declare the objects of the trust in such a form as to include by express reference some legally charitable purpose as well as other non-charitable purposes. He found the language of Section 1 (1) clear and unambiguous.

Merchantability in c. & f. Contract

THE defendant company, an importer of potatoes, in *Mash & Murrell Ltd v. Joseph I. Emanuel Ltd* ([1961] 1 All E.R. 485) by a c. & f. contract sold to the plaintiff company, a dealer in potatoes, Cyprus spring crop potatoes then afloat between Cyprus and Liverpool. The defendant knew that the plaintiff was a dealer in potatoes and that Cyprus spring crop potatoes were normally used for human consumption. When the potatoes arrived at Liverpool they were rotten and could only be sold as pig food.

Diplock, J., found as a matter of fact that when the potatoes were loaded at Limassol they were not fit to be carried to Liverpool so as to arrive in a condition fit for the purpose for which they would normally be used. His lordship found that the defendant was in breach of Section 14 (1) of the Sale of Goods Act, 1893, because its knowledge of the plaintiff's business, coupled with the plaintiff's request for Cyprus potatoes for use in England, was sufficient to raise the inference, which his lordship accepted, that the plaintiff made known to the defendant the particular purpose for which the goods were required, so as to show that the plaintiff relied on the defendant's skill and judgment. The defendant was also in breach of Section 14 (2) because, the goods being bought c. & f. Liverpool, the implied condition as to merchantability was a condition that they should remain merchantable for a reasonable time, the time reasonable in all the circumstances, which meant a time for the normal transit to the destination, Liverpool, and for disposal afterwards.

Rule in *Howe v. Earl of Dartmouth* Applied

THE rule in *Howe v. Earl of Dartmouth* ((1802) 7 Ves. 137) is that trustees must sell unauthorized investments, with a view to putting the proceeds into authorized investments, and the tenant for life is not entitled to the actual income of the unauthorized assets before conversion but only to a notional income of 4 per cent based on the supposition that conversion has taken place. In *Re Berry, Lloyds Bank Ltd v. Berry* ([1961] 1 All E.R. 529) it was in issue whether or not the rule had been excluded by the terms of the testator's will. The testator bequeathed his residue to his trustees on trust for sale with an express power to postpone sale and on trust for his wife for life and after her death for his daughters in equal shares. He declared 'that no part of any dividends rents interest or moneys of the nature of income shall be apportioned to or treated as capital of my estate and I declare that the whole thereof (whether the same be paid in respect of a period wholly or only partly prior to my death) shall belong to the person entitled under my will to the investment or property from which the same respectively arose and if there shall be a tenant for life of such investment or property such dividend rent interest or money shall be income payable to such tenant for life'. He gave his trustees an unlimited power of investment, but no express power to retain his hotel business, which fell into residue. Prior to the testator's death this business made a profit; between the date of his death and the date when it was sold by the trustees as a going concern it made a loss.

On an originating summons to discover whether the tenant for life was entitled to the actual income of the business or 4 per cent per annum of the proceeds of sale, Pennycuik, J., held that neither the trust for conversion with power to postpone sale, nor the words above quoted, excluded the rule, and the business was not an authorized investment for the purposes thereof, since the will gave no power to carry it on save for the purpose of winding it up. It followed that the tenant for life was entitled only to income at 4 per cent per annum on the proceeds of sale of the business from the date of the testator's death until it was sold.

Bankrupt's Interest in Trust Fund

THE bankrupt in *Re Cohen (a bankrupt)* ([1961] 1 All E.R. 646) was entitled to a life interest in his father's residuary estate. He claimed that the income of the estate (rents from land and dividends from building society shares) was income within Section 51 (2) of the Bankruptcy Act, 1914, and accordingly that, although it was vested in the trustee in bankruptcy, the trustee could not deal with it except under an order of the Court made upon an application under that subsection by the trustee.

The Court of Appeal rejected this contention, holding that the word 'income' in Section 51 (2) had a limited meaning, referring only to income in the nature of a salary. Accordingly, the bankrupt was not entitled to the declaration which he sought. •

Preferential Claim: Interdependence of Bank Accounts

IN *Re E. J. Morel (1934) Ltd* ([1961], 1 All E.R. 1796), a bank claimed that a debt owed to it by the company was preferential under Section 319 (4) of the Companies Act, 1948, as being an advance for the purpose of paying wages. The company had three accounts at the bank, a No. 1 account, which was overdrawn and frozen; a No. 2 account, which was a current account and kept in credit; and a wages account, which was generally overdrawn. The bank, in calculating the amount of its preferential claim, sought to combine all three accounts.

Buckley, J., held that it could only combine the two which were current and in fact operated together, the No. 2 account and the wages account. It followed that the bank could only claim as preferential the difference between the No. 2 account and the wages account. Furthermore, his lordship held that, if the three accounts should be treated as all being separate and the set-off provisions contained in Section 31 of the Bankruptcy Act, 1914, and applied by Section 317 of the Companies Act were applicable, then, assuming that the debit balance on the wages account was preferential, the credit balance in the No. 2 account should be set off against it, and not against the debit balance in the No. 1 account; for if a creditor obtained by set-off, payment in full, it was reasonable that that payment in full should be treated as being in respect of that part of his debt which would rank first in priority.

No Restoration to Register

IN *Re New Timbiqui Gold Mines Ltd* ([1961], 1 All E.R. 865), two creditors, one of whom was also a shareholder, sought the restoration to the register of companies, under subsection (6) of Section 353 of the Companies Act, 1948, of a company whose name had been struck off pursuant to that section in 1955. The shareholder did not acquire his shares until September 1959, and neither petitioner became a creditor till 1960, when both took assignments of debts which had accrued while the company was still on the register. It was alleged that the petitioners had no knowledge of the registrar's intention to strike off the company's name.

Buckley, J., held that the petitioners were not qualified to petition under Section 353 (6), because neither was either a creditor or a member at the date when the company was dissolved. As regards a person who became a creditor or member with knowledge of the striking off of the company, his lordship took the view that such a person was an officious interloper, who could not maintain that he was aggrieved by the striking off. His lordship held that, if he was wrong in holding that the petitioners were not qualified to petition, so that the question arose whether or not the Court's discretion should be exercised in their favour, on the facts of the case it should not be. It did not appear that any substantial benefit would accrue to members or creditors by reason of the company being restored to the register.

Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Dentists' Superannuation Contributions

SIR, — The best course for 'Dentac' (July 15th issue) is probably to charge these contributions to the partnership profit and loss account. This does, of course, charge B. with part of A.'s pension, but then at the moment A. is subsidizing B.'s current income: it seems no more than just that B. should receive this subsidy *less* the superannuation contributions applicable thereto.

The only alternative is to amend the partnership agreement so as to permit the sharing of profits in some ratio more accurately reflecting the number of patients attended by each partner.

Yours faithfully,

M. BARRADELL, LL.B., F.C.A.

Pinner, Middlesex.

Can We Afford Not to Use Marginal Costing?

SIR, — As usual, I find Kenneth Most (July 29th issue) very stimulating. I would like to thank him for promoting me to the ranks of the 'business men'; I usually describe myself as a modest analyst. I am also delighted at his use of 'stepped costs' which I thought I had invented (*Differential Costs and Management Decisions*, Chapter III); it was only recently that I discovered that someone else had invented it first: The National Association of Accountants' Research Report No. 37 on 'The current status of direct costing' mentions it.

There are one or two points which I seek the hospitality of your columns to explain.

The only reason I have gone away from the term 'marginal' costing is that it has become a weasel word, and is anyway used by the economists in a different sense; further, the Americans (and Duple Motor Bodies) call it 'direct' costing. Until the infant has been christened formally in a church which everyone recognizes, naming him is a free for all. Naturally I think my name is the best, as the others seem to confuse the child with some distant relatives whose paternity is far from clear.

On the valuation of work in progress, perhaps I might suggest that Mr Most should re-read the Institute's Recommendation 22. I am sure he will find things there that will interest, surprise and please him.

But, fundamentally, we are at one in thinking that accountants cannot afford not to make very much greater use of differential, marginal or direct costing. On the lowest possible plane they will be delighted to find their routine labours very substantially

lightened (as Mr Most points out — as also does the previously mentioned N.A.A. report). But if they don't, they will increasingly find themselves pushed into dusty corners to machinate in seclusion, while the operational researchers, statisticians and micro-economists (who are less inhibited about new ideas) usurp their job of guidance and control.

This would be a grave mistake and a serious loss to business. I am not an accountant, but I do know this: the accountant's training fits him admirably for the task of helping the business man; an amateur, no matter how gifted he may be, cannot replace him.

Yours sincerely,

London, SW1.

D. R. C. HALFORD.

Government Accounting

SIR, — Your article 'Curbing Government spending' (July 29th issue) is timeous and timorous: your leading article on March 18th last, 'Control of public accounts', was also fine stuff, and more forthright; these excursions by the 'recognized organ of accountancy' in the 'uncharted waters of Treasury finance' are all too rare.

Rather more than one hundred years ago the Financial Reform Association was founded as a watch-dog of Government expenditure; it survived until about 1915 when it became a war casualty. It published a very useful financial reform almanac and various booklets, none of which, rather surprisingly, is in the Institute library. I have kept one of the latter — on national finance, by Thomas Gibson Bowles, M.P., the Association's President and one of the foremost financial critics of his day: it is dated November 16th, 1904, and from its introductory paragraphs I quote:

'the national accounts are unsystematic, unscientific, complicated, and so presented as to conceal and even to falsify the facts'.

Lord Gorell in 1910 referred to the 'impenetrable labyrinth of fiscal legislation'. Chancellor Amory in 1960 made history in confessing he could not explain the Finance Bill clauses but had been assured it was impossible to put them in plainer English — fiddlesticks and bunkum. Sir Alan Herbert at *The Savoy* on April 24th last, said:

'The Treasury never learn anything; it is really horrifying that the Treasury should still be talking the same damned old nonsense. The Treasury is *always* in a mess.'

Thirty years ago, the chairman of one of the leading steamship companies went to gaol because, although his balance sheets totted up O.K., the picture was held to give a false impression; if the custodians of the public treasury were judged by the same standards, there would be a row of Chancellors of the Exchequer on gibbets at Tyburn!

Sir Charles Taylor, M.P., in a letter to *The Times* on July 25th, says what he would do if he were Chancellor of the Exchequer; if I were, my first act would be to have a public bonfire in Whitehall of all the copies of Niccolo's *Prince* found tucked away

in the clerks' desks, and replace them by double-entry lesson books.

Let me ask in gravest seriousness – What action has our Institute taken these last fifty years to get better and more honest national accounts – and more understandable by the 'man in the city'? Has our Council long been reclining in languorous complacency on our motto? Not being a Latin scholar I have had it translated, and am told it means – 'To tot up – O.K.' Can we not have it brought up

to date and something put in about *veritas*? Cannot the 'recognized organ of accountancy', which has done so much to improve the standard of public company accounts, do something to improve the standard of public accounts – while Moorgate Place sleeps?

Yours hopefully,

QUINQUAGENARIOUS.

(*Nom de plume* of a member of The Institute of Chartered Accountants in England and Wales.)

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, August 2nd, 1961, at the Hall of the Institute, Moorgate Place, London, EC2, there was present:

Mr P. F. Granger, President, in the chair; Mr P. F. Carpenter, Vice-President; Mr J. Ainsworth, C.B.E., Mr C. Percy Barrowcliff, Mr W. L. Barrows, Mr T. A. Hamilton Baynes, Mr D. A. Clarke, Mr J. Clayton, Mr C. Croxton-Smith, Mr E. Hay Davison, Mr W. G. Densem, Mr S. Dixon, Mr W. W. Fea, Mr J. Godfrey, Mr G. G. G. Gault, Mr J. S. Heaton, Mr J. A. Jackson, Mr H. O. Johnson, Mr W. H. Lawson, C.B.E., Mr H. L. Layton, Mr R. McNeil, Mr J. H. Mann, M.B.E., Mr R. P. Matthews, Mr W. Bertram Nelson, C.B.E., Mr W. E. Parker, C.B.E., Mr S. J. Pears, Mr C. U. Peat, M.C., Mr F. E. Price, Sir Thomas Robson, M.B.E., Mr D. Steele, Mr C. M. Strachan, O.B.E., Mr J. E. Talbot, Mr A. H. Walton, Mr V. Walton, Mr F. J. Weeks, Mr M. Wheatley Jones, Mr E. F. G. Whinney, Mr J. C. Montgomery Williams, Mr R. P. Winter, C.B.E., M.C., Mr E. K. Wright, Sir Richard Yeabsley, C.B.E.

Death of Mr L. J. H. Noyes

The Council received with deep regret the report of the death of Mr L. J. H. Noyes, B.Sc.(ECON.), F.C.A., the Secretary of the Taxation and Research Committee since 1954.

Schedule E: Members' Subscriptions to District Societies

The Council is pleased to report that the applications to the Commissioners of Inland Revenue by the thirteen provincial district societies have now been approved for the purposes of Section 16 of the Finance Act, 1958. Accordingly the whole of the annual subscription paid to a district society by a member who qualifies for relief under that Section will be allowable as a deduction from his emoluments assessable to income tax under Schedule E.

Committee on Higher Education (The Robbins Committee)

The Council approved a memorandum for submission to the Committee on Higher Education in response to a questionnaire from the committee.

Chartered Accountants Trustees Limited

The Council received and authorized publication of the fourth report of the directors of Chartered Accountants

Trustees Limited together with the accounts of the company for the year to May 31st, 1961, and the accounts for that year of the Chartered Accountants Retirement Benefits Scheme (CARBS) and the Chartered Accountants Employees Superannuation Scheme (CAESS).

National Council for Quality and Reliability

The Council has decided that the Institute shall become a constituent member of the newly formed National Council for Quality and Reliability set up by the British Productivity Council, and has appointed Mr J. Clayton, F.C.A., as the Institute's representative on that Council.

City of London College

The Council reappointed Mr P. F. Carpenter, F.C.A., to represent the Institute on the governing body of the City of London College for a further term of three years from March 1961.

Appointment to Committee

The Council appointed Mr E. F. G. Whinney to the Public Relations Committee.

Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Disciplinary

Chairman, Sir Harold Gillett; Vice-Chairman, Mr T. A. Hamilton Baynes.

Investigation

Vice-Chairman, Mr S. John Pears.

a indicates the year of admission to the Institute.

aS indicates the year of admission to the Society of Incorporated Accountants.

Firms not marked † or * are composed wholly of members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Library

Chairman, Mr D. A. Clarke; Vice-Chairman, Mr J. H. Bell.

Institute Staff

Mr M. C. Ashill, F.C.A., has been appointed an Under-Secretary as from August 1st, 1961.

Registration of Articles

The Secretary reported the registration of 75 articles of clerkship during the last month, the total number since January 1st, 1961, being 1,213.

Admission to Membership

The following was admitted to membership of the Institute:

Greenslade, David John, A.C.A., 1961; 15 Aldersey Road, Guildford, Surrey.

Fellowship

The Council acceded to applications from eight associates to become fellows under clause 6 of the supplemental Royal Charter.

**Incorporated Accountant Member
Becoming an Associate**

The Council acceded to an application from the following incorporated accountant member for election as associate under clause 6 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter:

Crosbie, Terence Marley, A.S.A.A., 1958; with Whinney, Smith & Whinney, 4B Frederick's Place, Old Jewry, London, EC2.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Archer, William Alan, A.C.A., 1957; Waugh, Haines, Rigby & Co, 34 Castle Street, Hereford.

Bagot, Peter James Cornelius, A.C.A., 1960; Neild, Son & Lees, 47 Market Street, Manchester, 1; also at Liverpool, Cook & Co.

Bailey, Derek Oswald, F.C.A., 1934; †Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2; for other towns see †Price Waterhouse & Co.

Bennigsen, Colin Frederick Gregory, A.C.A., 1958; A. J. Harper & Co, Finsbury Court, Finsbury Pavement, London, EC2.

Boud, Douglas William George, A.C.A., 1960; 138 Hicks Avenue, Greenford, Middlesex, and at London.

Broadbent, Keith Foster, A.C.A., 1958; Firth, Stangroom & Co, 2 Albion Place, Leeds, 1.

Christmas, Colin Roy George, A.C.A., 1957; 'Rosemary', 6 Gravetts Lane, Worplesdon, near Guildford, Surrey.

Clarke, Sydney Harold George, F.C.A., 1935; 'Bramber', Park Close, Walton-on-Thames, Surrey.

Cooke, Eric Raymond, F.C.A., 1950; G. W. Roberts & Co, 8 Moorgate Street, Rotherham, Yorks.

Cornwell, Charles Austin, A.C.A., 1961; Charles, Cornwell & Co, 4 Whitehall Court, London, SW1.

Cox, Bryan Beeching, A.C.A., 1956; 14 Forde Avenue, Bromley, Kent.

Craggs, William Lee, A.C.A., 1961; 6 Hudson Road, Sunderland.

Davies, Michael Francis, A.C.A., 1960; Wildash & Co, 7 Liverpool Terrace, Worthing.

Feldman, Henry Lewis, A.C.A., 1961; Henry L. Feldman & Co, 27 Chestnut Avenue, Canons Drive, Edgware, Middlesex.

Fortune, Stanley Welsh, A.C.A., 1956; Wm. Fortune & Son, Collingwood House, Church Square, West Hartlepool.

Gillitt, Barry, M.A., A.C.A., 1958; Daffern & Co, 29 Warwick Road, Coventry.

Gold, Jack, A.C.A., 1958; Trent, Raymond & Co, Morris House, 1-5 Jermyn Street, London, SW1.

Haddon, Jack Albert, A.C.A., 1955; Waugh, Haines, Rigby & Co, 34 Castle Street, Hereford.

Hall, David William, B.A., A.C.A., 1956; Wm. Fortune & Son, Collingwood House, Church Square, West Hartlepool.

Hewitt, Jack Oswald, F.C.A., 1929; †Price Waterhouse & Co, 7 South Parade, Leeds, 1; for other towns see †Price Waterhouse & Co.

Horwood, Colin George, A.C.A., 1959; 6 Alexandra Terrace, Marlborough, Wilts.

Hughes, Ronald Frederick, T.D., A.C.A., 1957; D. A. Owen & Co, 21 The Parade, Leamington Spa.

Langford, Dennis, A.C.A., 1956; 1 High Street, Chislehurst, Kent.

Lees, Edward Seaton, F.C.A., 1935; Wagstaff, Lees & Co, Lloyds Bank Chambers, Castle Street, Salisbury, Wilts.

Legge, Ingram Alistair Thomson, A.C.A., 1960; Roberts, Legge, Hubbard & Co, 3 Rumford Place, Liverpool, 3.

Levy, Allen Lawrence, A.C.A., 1960; Allen L. Levy & Co, 149 Clayhall Avenue, Ilford, Essex.

Madeley, John Richard Yorke, A.C.A., 1961; H. M. Madeley & Co, Oxhill Court, 202 Hagley Road, Edgbaston, Birmingham, 16.

Marchant, Leon Philip, A.C.A., 1958; Trent, Raymond & Co, Morris House, 1-5 Jermyn Street, London, SW1.

Miles, Anthony Llewellyn, A.C.A., 1960; 20 Medfield Street, Roehampton, London, SW15.

Newton, John, A.C.A., 1961; 4A New Romney Crescent, off Scraftoft Lane, Leicester.

Nosseck, Geoffrey Norman, A.C.A., 1961; G. N. Nossek & Co, 41 Wren Crescent, Bushey, Herts, and at Wembley.

Parkinson, Cecil Edward, M.A., A.C.A., 1960; West, Wake, Price & Co, 6 Broad Street Place, London, EC2.

Payne, Gordon Walter, A.C.A., 1953; J. D. Caine & Co, 10 King Street, Blackpool.

Quemby, Colin John, A.C.A., 1960; E. C. Barber & Co, Ibex House, Minorities, London, EC2.

Rider, Maurice George, A.C.A., 1955; C. Percy Barrowcliff & Co, 68-70 Corporation Road, Middlesbrough, and at Leeds, Newcastle upon Tyne and Wakefield.

Roberts, John Hilmer, A.C.A., 1960; Roberts, Legge, Hubbard & Co, 3 Rumford Place, Liverpool, 3.

Shaw, Leonard Walter, B.Sc., F.C.A., 1942; †Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2; for other towns see †Price Waterhouse & Co.

Smith, Derek John, A.C.A., 1957; 1 Surgey's Lane, Arnold, Nottingham.

Spencer, William James Graham, A.C.A., 1956; *Rogers, Son & Spencer, Bank Chambers, 1 Bluecoat Street, Nottingham.

Sutton, Brian, A.C.A., 1960; *Davies, Sutton & Co, 9 Broadgate Avenue, Beeston, Notts.

Thurston, (Miss) Ivy Elizabeth, A.C.A., 1955; E. Watts & Co, 38 Victoria Street, London, W1, and 108 Sandford Road, London, E6.

Wilson, Anthony, A.C.A., 1952; †Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2; for other towns see †Price Waterhouse & Co.

Woolfson, Tony Ivor, A.C.A., 1960; 5 Brentwood Drive, Gatley, Cheshire.

Readmissions to Membership

Subject to payment of the amounts required by the Council, one former member of the Institute was readmitted to membership under clause 23 of the supplemental Royal Charter and one former member under bye-law 38. One application under clause 23 was refused.

Change of Name

The Secretary reported that the following changes of name have been made in the Institute's records:

Passe, Harry, to Alexander-Passe, Harry.
Stein, Anthony Roger, to Stone, Anthony Roger.
Ware, John David, to Ware, John Egerton David.

Death of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr William Annand Carcary, J.P., F.S.A.A., Perth.

Mrs Elizabeth Margaret Gwynne Evans, F.C.A., London.
Mr George Isaac William Eyles, F.C.A., Cranbrook, Kent.
" William Button Gwinnett, F.C.A., Wolverhampton,
" Jag Mohan Lall, B.A., F.C.A., Calcutta.
" Edgar Llewellyn Lloyd, F.S.A.A., Johannesburg.
" Frederick Roy Mossford, A.C.A., Newport, Mon.
" Leslie John Henry Noyes, B.Sc. (ECON.), F.C.A., London.
" Frederick Spurgeon Page, F.C.A., Felixstowe.
" John Harold Phillips, F.C.A., London.
Sir Alan Rae Smith, K.B.E., F.C.A., Westerham.
Mr Noel Tynwald Summerscale, F.C.A., Paris.
" Thomas Stanley Welch, F.C.A., Chesterfield.
" Albert Ratcliff Woodward, F.C.A., West Bromwich.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on July 5th, 1961.

Overdue Subscriptions

The committee heard 152 formal complaints preferred by the Investigation Committee, each to the effect that the member concerned had failed to pay within four months of January 1st, 1961, the subscription then due and payable by him, so as to render himself liable to exclusion or suspension from membership.

In every case the committee found the formal complaint proved.

The committee ordered that each of the twenty-two members whose names are set out below be excluded from membership of the Institute:

Robert James Baxter, F.C.A., 53 Grosvenor Road, Wanstead, London, E11.
Roger Francis Bell, M.C., F.C.A., 159 New Bond Street, London, W1.
Allan Birchenough, F.C.A., The Cottage, South Pool, Kingsbridge, South Devon.
Richard Algernon Lyons Boustead, F.C.A., 'Whitegates', Piccards Rough, Sandy Lane, Guildford, Surrey.
Harry Booth Brown, F.C.A., 12 Rose Vale, Heald Green, Cheadle, Cheshire.
Richard Bury, A.C.A., 19 Queen Street, Blackpool.
Cecil Alfred Reed Cook, F.C.A., 31 Lloyd Street, Manchester, 2.
Edward William Crawford, C.B.E., D.S.O., F.C.A., 114 Birchfield Road, Widnes, Lancs.
Cyril John Dale, F.C.A., The Bungalow, Nantwich Road, Audley, Stoke-on-Trent.
Wilfred James Davison, F.C.A., 61 Fellside Road, Whickham, Newcastle upon Tyne.
James Edward Thomas Halliwell, F.C.A., The House on the Creek, Raymead Road, Maidenhead, Berks.
George Kidd, C.B.E., F.C.A., 2136 SW. Marine Drive, Vancouver 14, Canada.
George James Levers, A.C.A., 58 Baxter Gate, Loughborough.
David Campbell Mitchell, F.C.A., P.O. Box H.G., 174, Highlands, Salisbury, Southern Rhodesia.
Herbert Owen, F.C.A., 'Lynwood', Pool Lane, Brocton, Stafford.
Henry Marcus Passer, F.C.A., 111 Hodford Road, London, NW11.
Hendrick Jan Sluis-Cremer, F.S.A.A., P.O. Box 5188, Johannesburg, South Africa.
Arthur Gorton Stanyer, F.C.A., 93 Bute Street, Moston, Manchester, 10.
Philip Sutherland Strachan, F.C.A., 18 Darenth Road, London, N16.
Felix William Sutherland, F.S.A.A., 'Mtieni', Summit Road, Morningside, Johannesburg, South Africa.

Ernest John Tallack, F.S.A.A., 9 Christchurch Road, Clifton, Bristol, 8.

William Jack Webb, F.C.A., 11 Elms Way, Southbourne, Bournemouth.

And the committee ordered that five other members be excluded from membership or, if the remittance the subject of the formal complaint be received on or before July 31st, 1961, that the member concerned be admonished and that in the event of admonishment there existed special circumstances which justified the omission of the member's name from the publication of the Finding and Decision. Four of the members concerned tendered the amount due within the period allowed and were admonished. The following member was excluded from membership on August 1st, 1961: Lester Terence Louch, F.C.A., 21 Norland Square, London, W11.

The committee further ordered that two other members be excluded from membership or, if the remittance the subject of the formal complaint be received on or before August 31st, 1961, that in one case the member concerned be admonished and in the other case that no action be taken and that in each case if the remittance in question were received before August 31st, 1961, there existed special circumstances which justified the omission of the member's name from the publication of the Finding and Decision. Both of the members concerned tendered the amount due within the period allowed.

In the case of the remaining 123 members, whose full subscriptions had all been tendered at the date of the hearing, the committee decided that twenty-nine be reprimanded and eighty-one admonished and that no action be taken against thirteen; the committee considered that there existed in 119 cases special circumstances which justified the omission of the names of the members from the publication of the Findings and Decisions. The following four members were reprimanded:

Jack Frederick Cornelius, F.C.A., c/o Orpen Motors (Pty.) Ltd, 121 Roeland Street, Cape Town, South Africa.
Oswald Neale Ellis, F.C.A., Equity House, Uplands, Swansea.
Graeme MacDonald Fulton, A.C.A., c/o Carman & Bruce, P.O. Box 11, 22-24 Duke Street, Kingston, Jamaica.
Wilfred Arthur Haynes, F.C.A., Director, Cooper, Webb, Jones & Co Ltd, Stockwell Works, Bethesda, Bangor, Caerns.

Notes and Notices

THE ACCOUNTANT

Change of Address

Readers and advertisers are asked to note that the offices of *The Accountant* are now at 151 Strand, London, WC2. Telephone: Temple Bar 0832/8.

PROFESSIONAL NOTICES

MESSRS FARR, ROSE & GAY, of Friars House, 39-41 New Broad Street, London EC2, announce that Mr H. ROSE, F.C.A., retired from the firm on April 5th, 1961, but will continue to be available in a consultative capacity. Mr B. P. DAVIS, A.C.A., was admitted into partnership as from April 6th, 1961. The name and address of the firm remain unchanged.

MESSRS A. & C. SURREY & Co, Chartered Accountants, of Portland House, 73 Basinghall Street, London EC2, announce that as from July 4th, 1961, they have admitted Mr C. R. STEPHENSON, F.C.A., as a partner. The style of the firm remains unchanged.

MESSRS WAUGH, HAINES, RIGBY & Co, Chartered Accountants, of 34 Castle Street, Hereford, announce that as from July 1st, 1961, Mr W. A. ARCHER, A.C.A., and Mr J. A. HADDON, A.C.A., have been admitted to the partnership. The style and address of the firm remain unchanged.

Appointments

Mr Douglas W. Souter, V.R.D., F.C.A., has been appointed joint managing director of W. A. Souter & Co Ltd.

Mr James D. Tennant, F.C.A., director of Borax (Holdings) Ltd, has been appointed a director of Hardman & Holden Ltd, a subsidiary of the company.

Mr F. G. Liversedge, F.C.A., has been appointed a director of The Indian Iron & Steel Co Ltd.

Mr W. S. B. Sampson, F.C.A., has been appointed finance director of Baker Perkins Ltd as from September 4th.

Mr L. H. McRobert, C.B.E., T.D., D.L., F.C.A., and Mr J. R. Richardson, F.C.A., directors of Cerebos Ltd, have been appointed chairmen of Scott (Midlothian) Ltd and John Crampton & Co Ltd, respectively.

Mr Derek Alfred Larkins, A.C.W.A., has been appointed chief accountant of Lansing Bagnall Ltd.

OBITUARY

Thomas Goodall, F.A.C.C.A., F.C.I.S.

It is with regret that we record the death at the age of 87 at his home in Cork, of Mr Thomas Goodall F.A.C.C.A., F.C.I.S., principal in the firm of Thoma Goodall & Son, Certified Accountants, of Cork, and President of The Association of Certified and Corporate Accountants from 1939-40.

Educated at Leeds University and Freiburg University, Germany, Mr Goodall was admitted to membership of the former London Association of Certified Accountants in 1905. He commenced his business career with the Cork Timber and Iron Company and in 1922 was appointed secretary and director of the company. He was also a member of the Council of the Cork Employers' Federation and served as its President from 1948-55 and as a trustee of the Corl Savings Bank from 1935. At the time of his death Mr Goodall was chairman of the Cork branch of The Association of Certified and Corporate Accountants.

WAR DAMAGE COMMISSION TO CLOSE

The War Damage Commission, which was set up in 1941, is to be dissolved and legislation is to be introduced during the next Parliamentary session to transfer the Commission's remaining responsibilities and staff to the Inland Revenue and to secure the early closure of the scheme.

Up until the end of last year the Commission has paid out nearly £1,226 million in war damage compensation. Payments of claims against the Commission last year amounted to £8½ million and it is estimated that compensation will cost £7½ million and £6 million in the next two financial years respectively.

CONTROL OF BORROWING ORDER, 1958

New General Consent

The Treasury have issued a revised General Consent under the Control of Borrowing Order, 1958, as consequence of Royal Assent on August 3rd to the Trustee Investments Act, 1961. The new Consent came into operation on August 4th. The difference between the previous General Consent (operative from February 5th, 1959) and the new one are not substantial; they do not involve any change of policy in the Treasury control of borrowing. The difference are:

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- (i) in paragraph 3 of the Consent (which concerns the control of the terms of issue of certain securities) the reference to Section 1 of the Trustee Act, 1925 (which section was repealed by the Trustees Investments Act, 1961), has been replaced by a reference to paragraphs 1 to 5 of Part II of the First Schedule to the Trustee Investments Act, 1961;
- (ii) opportunity has been taken to define, in relation to corporations, residence outside the United Kingdom for the purposes of paragraph 2 (c) of the Consent.

Copies of the new General Consent are obtainable from H.M. Stationery Office, price 3d.

LOCAL LOANS FUND: INTEREST RATES

Loans advanced from the Local Loans Fund to local authorities on and after August 5th, 1961, carry the following rates of interest:

	<i>Per cent</i>
Loans for not more than five years ..	7½ (6½)
Loans for more than five years but not more than fifteen years ..	7½ (6½)
Loans for more than fifteen years but not more than thirty years ..	7 (6½)
Loans for more than thirty years ..	7 (6½)

The previous rates of interest (shown in brackets) had been in force since June 3rd, 1961. The new rates apply only to future loans; the rates of interest on existing loans are unaffected.

DOUBLE TAXATION: PORTUGAL

A double taxation agreement between the United Kingdom and Portugal was signed in Lisbon on July 31st. The agreement, which is subject to ratification, provides for the avoidance of double taxation of shipping and air transport profits, and is expressed to take effect in the United Kingdom from April 1st, 1952. The full text will be published shortly by H.M. Stationery Office.

CREDIT CARD FACILITIES CLUB

The Credit Card Facilities Club, founded in 1952 by Mr Bernard J. Owen, who had seen the credit card system in operation in U.S.A., now has a membership of 15,000 – almost exclusively company directors and executives. Members may obtain services at over 4,000 establishments in Great Britain and in thirty countries overseas. The annual turnover is well over a million pounds. Each member carries with him a small book which lists the services available, which include any kind of travel facility, hotel accommodation, restaurants, night clubs, jewellery, stores, men's and women's wear, car hire and accessories, caravan hire and so on, even to taxis in London.

The credit card holder is not restricted by sterling allowance regulations when travelling abroad – that is,



The President of the South Wales and Monmouthshire Society of Chartered Accountants, Mr Edgar T. Shepherd, F.C.A., and members of the Committee of the Society, recently paid a courtesy visit on the Lord Mayor of Cardiff, Alderman E. Ewart Pearce, J.P., M.B.E., F.C.A., at the City Hall. Alderman Pearce is the first member of the Institute to hold the office of Lord Mayor of Cardiff. Our photograph shows (left to right, seated) Mr T. W. Pickard, F.C.A., Immediate Past-President; Mr Edgar T. Shepherd, F.C.A., President; the Lord Mayor; Mr H. E. Halliday, F.C.A., Vice-President; Mr Colin Montgomery Williams, F.C.A., a member of the Council of the Institute, and other members of the Society's Committee.

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as far as purchases made through the credit card are concerned – and the Club is authorized to quote the following statement concerning income tax. 'The Inland Revenue is conversant with the C.C.F. Club system and the monthly statement will afford prima facie evidence of expenditure to support a claim to a deduction for income tax purposes.'

NORTHERN SOCIETY OF CHARTERED ACCOUNTANTS

New President Elected

Mr Percival Thomas Duxbury, F.C.A., of North Shields, has been elected President of the Northern Society of Chartered Accountants for 1961–62.



Mr P. T. Duxbury

Educated at Harrogate, Mr Duxbury served his articles in North Shields and was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1925. Two years later, in 1927, he set up in practice on his own account and has so continued to date. He is a director of several companies and also a trustee of the local savings bank and a member of the savings committee. He has

been a member of the Committee of the Northern Society for the past eleven years.

The new Vice-President is Mr J. C. Benson, F.C.A., a partner in the firm of Winter, Robinson, Sisson & Benson, Chartered Accountants, of Newcastle upon Tyne, and the Honorary Secretary for 1961–62 is Mr R. W. Thoburn, F.C.A., of 12 Windsor Terrace, Newcastle upon Tyne 2.

Seventy-ninth Annual Report

The seventy-ninth annual report of the Committee of the Society records a total membership at December 31st, 1960, of 415 – an increase of five members during the year.

Members were invited during the year to attend four lecture meetings arranged by the Students' Society and social activities included informal lunches held at Newcastle and Sunderland at which talks were given by guest speakers. There was an attendance of seventy-five at a 'pot pie' supper held with the Inspectors of Taxes, while other successful functions were the annual golf meeting and the annual dinner which was attended by 300 members and guests.

The North Yorkshire and South Durham Branch again increased its membership during the year, bringing the total to 190, and several meetings were

held. The Cumberland Branch also increased its membership, which numbered eighty-three at the year-end, and regular luncheon meetings were arranged. Other activities of the Branch included the annual ball at Carlisle and golf meetings at Workington and Penrith.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 1.30 p.m. on Monday next, August 14th, in the vestry of St Mary Woolnoth Church, King William Street, EC3. The scripture for reading and thought will be John, Chapter 14, verse 16 (Christ's intercession for the sending of the Comforter).

BY ROAD TO GREECE

The fourth 'By Road' volume¹ by Mr Robert Bell, an Assistant Secretary of The Association of Certified and Corporate Accountants, describes another of his motoring holidays – this time to Greece, by way of Yugoslavia, returning by the east coast of Italy.

Mr Bell continues to produce a most enjoyable and useful record of his ventures, combining a wealth of practical detail with a descriptive account of places and people in lively style. There are many pictures, some helpful town plans and a detailed map of Athens.

ACCOUNTANTS' CROSSWORD: SOLUTION

The solution to the Bank Holiday Crossword compiled by Mr Kenneth Trickett, F.C.A., which appeared in last week's issue, is as follows:

H	O	L	O	G	R	A	P	H	T	C	A
B	P	E	A	S	E	C	O	N	D		
C	O	N	T	R	A	C	T	S	N	R	V
L	I	L	E	B	O	U	R	S	E		
J	U	R	O	R	N	R	E	E	R		
S	N	M	A	T	H	S	G	L	U	T	
W	I	A	S	T	A	I					
H	A	N	S	A	R	D	F	O	U	R	T
I	D	K	B	R	E	E					
T	A	E	L	S	T	A	K	E	P	R	
E	M	B	R	M	O	N	E	Y			
R	U	N	N	E	R	G	F	I	P		
E	I	A	W	A	R	R	A	N	T	E	E
N	O	T	A	R	Y	I	E	D	A		
T	Y	S									

CORRECTION

It is regretted that a misprint occurred in our report of the tax case of *McKie v. Warner* in last week's issue. As stated in a 'Weekly Note' in our issue of July 15th, it was in fact held that the respondent was *not* entitled to deduct the £350 as expenses.

¹ *By Road to Greece*. Alvin Redman Ltd, London, 21s net.

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A New Look at Auditing

TWO common fallacies about auditing are that it is dull and unimaginative work and that its techniques are limited and easy to master. The first of these foolish notions probably stems from the tedium which excessive ticking in the first years of article clerkship may have engendered; the second is more subtle but is undoubtedly derived from narrow rather than from, as some might think, wide experience. The more the practising accountant comes to know about auditing, the more numerous and profound are the problems he is likely to encounter. The truth is that auditing is, or should be, tense and exciting work entailing, as it does, considerable responsibility and calling for the constant exercise of trained skill and cultivated judgment on the part of the executant.

A further stimulus has been given to auditing as a result of the steady expansion of trade and the tendency towards the concentration of industry into large units. It is not now practicable for the auditor to check in detail more than a fraction of the transactions made by his more substantial clients in the course of a year. His responsibility, nevertheless, remains undiminished and, in consequence, he has to adopt other means of satisfying himself as to the accuracy and propriety of their records. Two of these - and he may well use a combination of both - are scientific sampling and inspection of the accounting and internal control systems in operation. Appraisal by these methods raises auditing on to an altogether higher intellectual plane.

Well aware of the change of emphasis in the practice and purpose of auditing as necessitated by the times, the Council of The Institute of Chartered Accountants in England and Wales has prepared, and this week issued, the first of a series of statements on auditing. The document, which deals with general principles, will form part of the *Members' Handbook* but we are reproducing it in this issue so that the profession in general may have an immediate opportunity of studying it. The Council's aim is to improve the standards of auditing so that accountants, their clients and the public all may benefit.

In its introduction, the Council makes the firm point that an auditor appointed under the 1948 Companies Act cannot contract out of any of his obligations (Section 205 sees to that) but he may have additional duties thrust upon him either by the articles of the company or by agreement with the directors or members. Common examples are the preparation of the financial accounts and extra detailed checking to detect suspected fraud. In such circumstances, the Council states, the auditor should ensure that

his independence is not impaired by taking on these extra-statutory services and that, for their part, the directors should realize that nothing the auditor does for them in this way will relieve them from their own obligations as officers. The responsibility for the accounts and for the financial control of the company remains fairly and squarely with them.

The Council at the end of its introduction envisages an audit being performed in four stages—firstly, a critical review of the company's accounting and internal control systems; secondly, the checking of the records; thirdly, the comparison of the financial accounts with these records; and, fourthly and finally, the appraisal of the accounts with a view to giving the appropriate report to the members. The lengthiest of these, in point of time, is the second and it is therefore of vital importance from the double angle of efficiency and economics that its duration should be cut to a minimum consistent with, as the Council states, the degree of reliance (which the first stage will have defined) that may be placed on the company's own arrangements for keeping honest and accurate records of its transactions.

How these arrangements should be evaluated from the auditor's viewpoint occupies the first main section of the Council's statement. It is heartening to note that among the steps recommended to be taken is 'possibly an inspection of its physical assets and operations' although we should have expressed this more positively by using the word 'certainly' instead of 'possibly'. With only a fragmentary knowledge of what goes on in the factory, gleaned from his scrutiny of the office records, it is very difficult for an auditor to see his client's business clearly and to see it whole. A visit to the factory floor, the stores, the reception and dispatch departments, and even to the research laboratories if they exist, will enable him to place the plant in his inward eye in its proper perspective. He will find, too, that as a result of his perambulations and 'on the spot' inquiries, the entries in the books assume a new interest and meaning. In the same section the Council emphasizes the necessity for the auditor to put in writing not only the conclusions of his first survey but, also, the consequential advice which he may deem it expedient to give to the directors on how to

improve the existing systems. A copy of³ these documents should be preserved in his own permanent papers file because they summarize the original situation as he found it and all subsequent amendments thereto should be carefully noted.

The contents of the second main section of the Institute's statement, dealing with the nature and extent of the tests to be applied, will already be familiar in the main to practitioners but it is useful in that it draws attention to the advantages to be derived from testing in depth rather than in breadth; that is, following through a selection of transactions from the original order to the ultimate payment in preference to taking unrelated switches of, say, cash-book and day-book entries and battering the evidence therefor insensible with an audit stamp. Once again, the Council rightly stresses that the extent of detailed checking depends on the strength of the internal control system operating and goes on to point out that if the auditor discovers, either as the result of his preliminary inquiries or subsequent checking, that proper books of account have not been kept, then he must say so in his report. In extreme cases, he may even have to declare his inability to express an opinion on the truth and fairness of the accounts themselves.

If the third phase of the audit as defined by the Council—comparing the financial accounts with the records—had to be summarized in one cautionary word, that word would be 'consistency'. The auditor must satisfy himself that not only have correct principles been applied but also that they are in keeping with those accepted in the previous year. He must see, too, that the distinction between capital and revenue has been scrupulously preserved, that all assets and liabilities have been included, have been verified and are correctly described and that there has been adequate disclosure of all other information relevant to the period under review. It is only when these and other points enumerated by the Council have been checked that the auditor may turn his attention to the fourth and final phase of the audit—the appropriate wording of his report to the members.

In a special reference to fraud towards the end of its statement, the Council repeats the dictum of LORD JUSTICE LOPES in the *Kingston Cotton Mill* case that the auditor cannot be expected to

uncover 'ingenious and carefully laid schemes of fraud' but makes the reservation that the auditor must keep in mind the latent possibility of such irregularities when assessing the worth of the company's own precautions in relation to the amount of detailed checking to be undertaken.

Auditing is such an accepted and commonplace occupation for most practitioners that its cardinal principles, even with the exercise of normal vigilance, tend to become a little blurred by time and usage. The profession, therefore,

should be grateful to the Council of the Institute for restating the old truths in clear outline and with full regard for the changes which are constantly taking place in an apparently changeless routine. If the succeeding statements are of the same high calibre as the first, then a completely modern philosophy of auditing will have been enunciated and both the profession and those whom it serves will be the richer. This, we are sure, is the sole compensation the Council seeks for the trouble it is now taking.

Sales Variances

by R. G. H. NELSON, F.C.A., F.C.W.A.

Articles on variances from standard production cost dealing, respectively, with materials variances, labour variances and overhead variances appeared in the issues of April 22nd, May 13th, and July 15th, 1961

1. 'Quantity' and 'Mix' Variances

FOLLOWING the series of articles on variances from standard production cost we have another example of variances with joint effect, such as were discussed in section four of the second article in the series in the issue of May 13th. There are four combinations available, using standard price throughout, namely:

- (1) Budgeted total units at budget mix.
- (2) Actual total units at budget mix.
- (3) Budgeted total units at actual mix.
- (4) Actual total units at actual mix.

The quantity variance can be either 1-2 or 3-4; and the mix variance either 2-4 or 1-3. That is to say, either formula 2 or formula 3 can be regarded as the middle term according to whether one wishes to emphasize the effect of mix or the effect of quantity.

The formulae given on the accompanying chart follow the pattern (1-2) and (2-4); this being in line with the formulae for material mixture variance given on the first chart in this series. (*The Accountant*, April 22nd.)

2. Information for Calculating Variances

It will be seen that in order to calculate sales variances accurately, one needs the following

information which is not available without special calculation:

For sales price variance and volume variance

A recalculation of actual sales invoices at standard selling price - for comparison with the total of actual sales invoices (sales price variance) or with total budgeted sales (volume variance).

For quantity of mix variances

A notional calculation of individual product sales (at standard selling price) as if the total units actually sold had been in the budgeted product proportions.

It is obvious that the latter calculation is only available if all sales can be expressed in the same unit of quantity. One must beware here of the error that because piece-parts and assemblies may both be expressed in 'units-off' they are consequently comparable for this purpose. For example:

		Budget		Actual		Revised standard mix
		'Units'	£	'Units'	£	'Units' £
Assembly A	..	4	600	7	1,050	2 300
Piece-parts	B	100	400	45	180	50 200
		104	1,000	52	1,230	52 500

Quantity variance: £500 - £1,000 = (£500)

Mix variance: £1,230 - £500 = £730

The statement that by making fifty-two 'units' instead of 104 the firm has lost £500 sales value is

obvious nonsense. It is clear that there is no freedom of choice between making one unit of assembly A and one unit of piece-part B.

3. Profit Variances

In the formulae given on the chart for calculating the profit effect of sales volume variances, it is immaterial whether sales values or sales units are used, since at budgeted mix and price both will have the same relationship to the basic budget.

A calculation based on the data on section 2 above will illustrate this. A standard profit is assumed at £50 per unit of A and 10s per unit of B, giving a total budgeted profit of £250.

$$\text{Quantity variance A } \left(\frac{2}{4} \times £200\right) - £200 = (£100)$$

$$\text{B } \left(\frac{50}{100} \times £150\right) - £50 = (£25)$$

$$\underline{(\underline{£125})}$$

$$\begin{array}{lcl} \text{Mix variance} & \text{A } £350 - £100 & = £250 \\ & \text{B } £22 \text{ 10s} - £25 & = (\underline{£2 \text{ 10s}}) \\ & & \underline{\underline{£247 \text{ 10s}}} \end{array}$$

i.e. assuming A and B to be in comparable units the firm has lost half of its budgeted standard profit by working at half the capacity; but has recouped £247 10s by concentrating on the high profit units.

If sales value be substituted for sales units:

$$\text{Quantity variance } \left(\frac{500}{1,000} \times 250\right) - 250 = (£125)$$

$$\text{Mix variance } £372 \text{ 10s} - £125 = £247 \text{ 10s}$$

In presenting the profit effect of sales variances, some accountants prefer to isolate the quantity variance (often described as 'volume variance') and to group the price and mix variances together.

The method of showing the mix variance will depend primarily upon whether it is regarded from the point of view of cost (as a measure of ingenuity in deploying resources) or of price policy (as a measure of success in exploiting a differential price structure).

It may be noted in this respect that the term 'mix variance' is also used for 'market mix variance'—that part of the total price variance which results from selling in different markets in proportions different from those budgeted; notably substitution between home and export sales.

4. Accounting Treatment of Sales Variances

Since under a standard costing system standard costs which are not achieved are entered in the books of account, there is no theoretical reason why unachieved budgeted sales should not also be entered.

In practice, however, book entries are confined to transactions and calculations flowing naturally through the day-to-day paperwork. Purchase price variances for example can be derived from purchase invoices, and similarly sales price variances could be derived from sales invoices. Sales volume variances, however, can only be calculated after the close of a period by re-analysis of the recorded facts. For this reason, although sales price variance is sometimes recorded in the books of account it is extremely rare to find sales volume variance so dealt with.

It is sometimes claimed that achieved sales are a basic fact from which investigation of cost and profitability should be developed. Failure to achieve budgeted sales is, however, a positive 'sin of omission' demanding equally close attention.

5. Presentation of Sales Variances

The lower part of the accompanying chart illustrates the two main methods of presenting sales variances from the points of view either of sales value or of profit.

A third alternative might be as follows:

					£
Budgeted sales	..	..	..	..	25,000
Sales volume variances	..	..	..	..	2,500
					<hr/>
Actual sales at standard price	..	..	..	..	27,500
					<hr/>
Standard profit on actual sales	..	..	..	..	5,500
Less Sales price variance	..	..	..	..	375
					<hr/>
Actual profit on sales	..	..	..	..	5,125
Less Cost variances	..	..	..	..

6. 'Budgeted' and 'Standard'

As throughout this series, one has to remember that budgeted costs and profit need not be the same as standard costs and profits. One may budget for variances from a control—or long-term standard.

The charts in general use the two terms indifferently; but where a choice exists it is a question of management requirement, in each case, which alternative basis of control is to be used.

SALES (VALUE) VARIANCE

Actual sales value — budgeted sales value

PRICE VARIANCE	VOLUME VARIANCE
(Actual units sold × relevant actual unit prices) — (Actual units sold × relevant standard unit prices)	(Actual units sold × relevant standard unit prices) — (Budgeted unit sales × relevant standard unit prices)
<p>Suggestions for:</p> <p>Analysis of Variances by Cause</p> <p><i>Price Variance</i></p> <p>(1) Customer or market MIX. (2) General price increase. (3) Special rebate schemes.</p> <p><i>Volume Variance</i></p> <p>(1) Change in market potential. (2) Change in market penetration (this firm's share of total market). <i>Sub-analysis:</i> (a) increased publicity; (b) changes in sales representation; etc.</p>	MIX VARIANCE (Actual total units sold at actual mix — actual total units sold reapportioned to budgeted mix) × relevant standard unit prices
<p>NOTES</p> <p>(1) Actual total units × budgeted mix × standard price = REVISED STANDARD MIX. (2) Actual total units × actual mix × standard price = STANDARD SALES.</p> <p>Calculation of Profit Effect of above Variances</p> <p>(1) Apply standard ratio of profit to sales price on to above variances. OR (2) Substitute 'standard profit per unit' for 'standard unit prices' in above formulae. OR (3) Quantity Variance = $\left(\frac{\text{actual total units at budget mix}}{\text{budgeted total units}} \times \text{budgeted profit} \right) - \text{budgeted profit}$.</p> <p>Mix Variance = Standard profit on actual sales — $\left(\frac{\text{actual total units at budget mix}}{\text{budgeted total units}} \times \text{budgeted profit} \right)$</p>	

METHODS OF PRESENTING SALES VARIANCE INFORMATION

Budgeted sales	25,000	20 %	5,000	STANDARD PROFIT on SALES	5,500	(375)
Standard cost of budgeted sales	20,000			BUDGETED PROFIT ON SALES (20% on Sales Value)		

Budgeted sales	25,000				
Sales volume variance	2,500				
Actual sales at standard price	27,500				
Sales price variance	(375)				
Actual sales at actual price	27,125				
Standard cost of actual sales	22,000				
'STANDARD NET PROFIT' OR 'ACTUAL PROFIT ON SALES'	5,125				
Cost variances	(1,050)				
ACTUAL NET PROFIT	£4,075				

METHOD I
from point of view
of sales values

METHOD II
from point of view
of profit

More About Alpenstocks

SOLVING A LINEAR PROGRAMMING PROBLEM

by A. BATTERSBY, B.Sc. F.R.I.C., F.S.S.

IN a previous article (*The Accountant*, July 1st, 1961, page 5) we saw how a problem of scheduling production in a small factory could be reduced to a set of simultaneous equations with an infinite number of solutions; we have to select the solution which will give the highest possible value to a profit or 'control function', Z . As previously suggested, this is a typical linear programming problem, and the example quoted had the form (see first article, page 6):

$$\begin{array}{rclcl} (9) & p + q + r + s & = & 8 \\ (10) & p + 2q + r + t & = & 9 \\ (11) & 2p + r + u & = & 11 \\ (12) & 3q + 2r + v & = & 9 \\ (13) & \text{Maximize } 2p + 6q + 2r & = & Z \end{array}$$

It is convenient to rearrange these equations slightly:

$$\begin{array}{rcl} (19) & s = 8 - p - q - r \\ (20) & t = 9 - p - 2q - r \\ (21) & u = 11 - 2p - r \\ (22) & v = 9 - 3q - 2r \\ (23) & Z = 0 + 2p + 6q + 2r \end{array}$$

The Approach to the Problem

We begin by selecting *any* solution of the four equations (19) to (22) as a starting-point and then systematically increasing the profit until no further improvement is possible. The most obvious solution comes from putting all the variables on the right-hand side equal to zero; this is equivalent to saying, 'Do no work at all', a solution which is perfectly feasible but (not surprisingly) gives zero profit.

Now we set about increasing the profit by changing one variable at a time. Any variable may be chosen, but q is the obvious one to start with because it has the greatest effect on Z .

Remembering that p and r are both held equal to zero, we ask, 'By how much may we increase q without infringing the conditions imposed on us by the problem?' Equation (19) shows us that q must not exceed 8—otherwise s will become negative, which is not permitted. Similarly, equations (20) and (22) restrict q to $4\frac{1}{2}$ and 3 respectively. (Equation (21) does not restrict q at

all.) It follows that the only value of q which satisfies *all* the equations at once is the smallest, 3, and this yields a profit of £18. In physical terms, we can work three hours on process Q to produce six alpenstocks and nine chairs, the latter figure being the total which can be sold.

Now we must try to make a further increase in Z by acting on another variable, *but without disturbing q* . We do this by first shunting q across to the left-hand side of the set of equations. The equation which applied the greatest restriction on q was (22), so transpose this with q on the left:

$$(27) \quad q = 3 - \frac{2}{3}r - \frac{1}{3}v$$

Now substitute this value in all the other equations:

$$\begin{array}{rcl} (24) & s = 5 - p - \frac{1}{3}r + \frac{1}{3}v, & \text{from (19)} \\ (25) & t = 3 - p + \frac{1}{3}r + \frac{2}{3}v, & \text{from (20)} \\ (26) & u = 11 - 2p - r, & \text{from (21)} \\ (27) & q = 3 - \frac{2}{3}r - \frac{1}{3}v, & \text{from (22)} \\ (28) & Z = 18 + 2p - 2r - 2v, & \text{from (23)} \end{array}$$

Once again, we have all the variables on the right-hand side equal to zero. Only one of them, p , can be used to increase the profit Z . The restrictions on p are:

$$\begin{array}{l} \text{From (24), } p \leq 5 \\ \text{From (25), } p \leq 3 \\ \text{From (26), } p \leq 5\frac{1}{2} \\ \text{From (27), no restriction on } p \end{array}$$

The limiting equation this time is (25) and by transposing it so that p is on the right-hand side we get:

$$(15) \quad p = 3 + \frac{1}{3}r - t + \frac{2}{3}v$$

and substituting this in the others gives:

$$\begin{array}{rcl} (14) & s = 2 - \frac{2}{3}r + t - \frac{1}{3}v \\ (15) & p = 3 + \frac{1}{3}r - t + \frac{2}{3}v \\ (16) & u = 5 - \frac{5}{3}r + 2t - \frac{4}{3}v \\ (17) & q = 3 - \frac{2}{3}r - \frac{1}{3}v \\ (18) & Z = 24 - \frac{4}{3}r - 2t - \frac{2}{3}v \end{array}$$

Now, all the variables on the right-hand side of the control function Z have negative coefficients, so we cannot make Z any bigger by increasing them. They cannot be decreased either because they are already zero, unless the initial restrictions which were built into the problem are changed.

We can therefore say with confidence that Z now has its maximum value and the best solution is:

$$s=2, p=3, u=5, q=5$$

The translation of this into a production plan was discussed in the previous article.

Problems in Real Life

Linear programming problems in real life are much more complicated than this example and may involve tens of thousands of variables; instead of being solved in two steps they may need hundreds. The mathematicians who deal with them use the convenient jargon of higher algebra and you may hear them muttering about 'column vectors', 'degenerate matrices' and even such esoteric concepts as 'polyhedra in N-dimensional phase space'. Nevertheless, the methods which they use are in essence no more than the simple rearrangement of simultaneous equations as presented here.

When linear programming is applied to industrial problems, the skill which really matters does not lie in mathematical manipulations, but in *defining the problem* correctly. It is in this field that the accountant can and should wield his influence, regardless of his level of sophistication in mathematics. He may ask, 'Is there in fact a rigid upper limit of eight hours on the working day; can we allow for shift or overtime working?' We can, if we know the appropriate costs, although it is fairly obvious that in our example there is no extra profit to be gained in this way.

Again, he may say, 'Are our prices so very inflexible? Could we sell more alpenstocks if we reduced their price from £3 to £2 15s od?'

'Yes', replies the sales manager, 'at that price we could sell at least fifteen a day, but of course we should be cutting down our profit.'

Let us reformulate the problem and find out just how much the overall profit would be affected by this reduction. The new price for alpenstocks will reduce the profitability of processes P, Q and R to £1 15s, £5 10s and £1 15s per hour respectively. The restriction on alpenstocks goes up to fifteen, otherwise the equations are unchanged:

$$(19) \quad s = 8 - p - q - r$$

$$(20a) \quad t = 15 - p - 2q - r$$

$$(21) \quad u = 11 - 2p - r$$

$$(22) \quad v = 9 - 3q - 2r$$

$$(23a) \quad Z = 0 + \frac{7}{4}p + \frac{11}{2}q + \frac{7}{4}r$$

The solution is:

$$(29) \quad p = 5 - s - \frac{1}{3}r + \frac{1}{3}v$$

$$(30) \quad t = 4 + s + \frac{1}{3}r + \frac{1}{3}v$$

$$(31) \quad u = 1 + 2s - \frac{1}{3}r + \frac{2}{3}v$$

$$(32) \quad q = 3 - \frac{2}{3}r - \frac{1}{3}v$$

$$(33) \quad Z = 25\frac{1}{4} - \frac{1}{4}s - \frac{5}{2}r - \frac{5}{4}v$$

which gives a profit of £25 5s from the following production schedule:

Process P, 5 hours at £5	..	..	£	25
Process Q, 3 hours at £6	..	..		18
Process R, nil				
Total cost	..	..	£	43
Sale of alpenstocks, 11 at £2 15s	..		£	30
Sale of bookshelves, 10 at £2	..			20
Sale of chairs, 9 at £2	..			18
Total revenue	..	..	£	68
			s	5
			d	0

Not a Mathematical Curiosity

Consider the implications of this result. Not only has the profit been increased, but the production plan has been altered considerably by the change in price. Other price adjustments may lead to even greater profits; price fixing and production scheduling are seen to be not two separate matters, but two aspects of the more general aim of maximizing profit. How many businesses bother to examine this interaction between price and production? A current problem in the present depressed state of British industry is surplus productive capacity; our tiny imaginary factory has been shown to make a marginal profit on two hours of unemployed capacity by a change in price. *Verb. sap.*

No one who has dealt with linear programming would deny that it has its limitations. Some of them have been overcome—for example, functions which are not linear can be dealt with; on the other hand, statistically distributed variables still present difficulties. These drawbacks should not be allowed to obscure the great value of linear programming which these short articles can only present in outline. It is a tested working method, not a mathematical curiosity; its present rate of development both in application and in theory is too rapid to be ignored. It is the practical uses of linear programming which lead to the improved theoretical methods and it is the industrial accountant who should be putting them to use. Remember Belloc's tongue-in-cheek observation:

Life is a vale, its paths are dark and rough

Only because we do not know enough:

When Science has discovered something more

We shall be happier than we were before.

The Problems of a Group upon the Acquisition of Companies — II

by R. O. A. KEEL, F.C.A.

V. The Privately Negotiated Acquisition

IN the privately negotiated acquisition the initial coming together of the buyer and seller of a business is usually effected in the following ways:

- (a) by personal contact where members of the acquiring organization are known either directly or indirectly to the sellers;
- (b) through solicitors, accountants, business brokers, bankers and stockbrokers, whose clients have expressed a wish to sell or buy an interest in a business; and
- (c) by a direct approach either by the acquiring organization to the board of the company to be acquired or to its owners (if they be different), or to the acquiring organization by the vendors usually where it is known to them by reputation.

Investigation for the acquisition of a business

22. If after initial inquiry it is evident that there is nothing that materially runs counter to the pre-requisite conditions to acquisition, the acquirer can embark upon a more detailed investigation. Such investigation for purchase may be effected by the acquirer's own staff and/or through outside professional advisers. The latter may include accountants, solicitors, engineers, surveyors, and others depending on the size and nature of the investigation and on the policy decisions of the acquiring organization. The carrying out of the investigation by the staff of the acquiring organization has in my own experience brought many advantages, including the opportunity for early and continuous association with the new subsidiary, for the gaining of a deeper knowledge of the new organization; and for the establishment of goodwill and a friendly understanding between the persons who will perhaps be working together in the future.

No two investigations for purchase ever run the same course but they do take a general pattern. Any *pro forma* programme of operations which may be drawn up must be flexible in its content and layout. Such an investigation programme can be drawn up to deal with the various stages involved in an acquisition and should allow for and include a *pro forma* report or reports at these various stages. In the case of my own company there are usually three stages in a typical investigation for acquisition.

The second part of a paper presented at the Summer Course of The Institute of Chartered Accountants in England and Wales at Oxford on July 17th, 1961.

23. *Stage I.* This will cover consideration of the original inquiry, its source and the information in it and preliminary information on the industry and the business. It will also cover the latest reported results and current financial position and the broad reasons for the sale and purchase and will postulate anticipated results and developments and the nature of the deal. Independent information will also be obtained from various sources of reference and these may include directories, Press reports, company information services such as Moodies or the *Exchange Telegraph*, the Bush House file and trade status inquiry reports. Such information will identify the persons and businesses involved and will be concerned to establish bona fides. This stage ends with a preliminary meeting and a brief report based on the preliminary information obtained which should make a recommendation, or otherwise, for advance to Stage II.

24. *Stage II* will embrace the more detailed investigation on the industry and the firm, either by professional advisers or by the acquirer's staff. Inspection of the works, offices, warehouses, shops and showrooms will also be completed where possible and appropriate. Meetings will be held to agree the pattern and security of the negotiation and to elaborate on the form of the purchase and of the organization under which the acquisition will operate in its new group. Written reports will also be required from the owners or management of the acquisition which will cover many aspects of the business operation. Among other information the following should normally be obtained:

- (a) Full sets of the last ten years' detailed audited manufacturing, trading, and profit and loss accounts and balance sheets for each company under review, and consolidated accounts where applicable. Also cost accounts and any supporting documents to the published accounts such as directors' reports and chairman's reviews.
- (b) Tax and wear and tear computations for the last five years.
- (c) Total for each company of current orders compared with those of the preceding year.
- (d) Analyses of sales for the last five years for each company:
 - (i) in the main product categories (in sterling and quantity);

- (ii) showing the amount taken by the six major customers (in sterling);
- (iii) showing the amount of exports (in sterling).
- (e) Details (including particulars where appropriate of date of purchase, the original cost, rate and method of depreciation, the total depreciation provision, net book value and the estimated current value) for each company of all significant classes of fixed assets and of all individual items of major significance.
- (f) Details (including valuation bases) of all significant classes of current assets and liabilities.
- (g) Details of long-term or deferred liabilities.
- (h) Details of the management and its structure.
- (i) Lists of present shareholdings.
- (j) Copies of the memorandum and articles of association and all important agreements.
- (k) Details of leases, and development and planning rights on land.

Information having been obtained from the documents provided, further meetings will provide the opportunity for receiving explanations and additional information. One of the main matters established at this juncture is the basis and *quantum* of future maintainable profits. Finally an intermediate report is submitted setting down relevant information obtained to date and putting forward a recommendation.

25. *Stage III* will bring the principals in the deal together. Negotiation will then take place. A final report is thereafter provided for top board consideration. The terminal decisions involving formal completion of the deal, publicity and post-acquisition procedures will then be resolved.

26. Suggested contents for a report to be provided at the completion of Stages II and III is included as Appendix A. While all the sections will be included in the Stage III final report it will be drawn up in less detail and will be prefaced by a one-page summary.

Judging the state and capacity of a company

27. The investigation is essentially a process of collecting facts and drawing conclusions. The means and manner of this fact gathering having been considered and the contents of a simple report having been set down (see Appendix A) I feel it important to comment on the major factors to be drawn out of the mass of data to enable judgments to be made.

28. In my view the major factor affecting any company is the quality of its management. How is this to be assessed? I would list the following indicators and I am sure there are many others:

- (a) What are the achievements of the present men?
- (b) How long have the management been in the saddle, and to what extent are they the creators of the business?

- (c) Is the management structure appropriate for the nature, size and state of development of the concern?
- (d) Are the management forward looking in all their policies and activities?

The answers to these questions will be many and manifold when applied to all the facets of any business. The pattern emerging will point to management success or failure.

29. Morale of a concern is an elusive quality. It usually does not exist without good leadership. It may depend heavily upon history and tradition, and a proper pride in past achievement. It can be recognized in application and enthusiasm, in a good work tempo, and in cheerful and willing co-operation. It brings inventiveness and inspiration, and in times of adversity it brings resilience for recovery. Above all it brings success and the end product of financial reward for all concerned.

30. The physical state of a company's assets has to be judged by inspection. This is the job of the engineer, the surveyor, and other specialist professional advisers. Examination of the book records and verification of the assets while appropriate for audit is insufficient for acquisition purposes unless perhaps the business is essentially 'personal' (say a fashion designer) or one of service (say a management consultancy). In such instances, particularly where assets are few, judgment is on performance from past record and by an examination and appraisal of present action. It is to be emphasized that judgment of physical state is not the same as the equally essential task of ascertaining the capacity and efficiency of the assets employed in operating the business.

31. Reputation and status can be cross-checked with third parties. True goodwill although an 'intangible' asset is none the less a real one. Goodwill is an asset which the best businesses nurture. Evidence of past efforts for the building of 'goodwill' should be looked for carefully. First-class service, research into customers' needs and attention to both public and internal relations are all of the utmost importance in pin-pointing the live and vital concern.

32. The pattern of financial success and the way it has been met and coped with are both items of great significance. The source and use of funds statement, the record and trend of the return on capital, and the personal handling of private financial affairs, will all give valuable clues to the character of the business, to its growth potential, and to its owners who perhaps may be continuing as the managers.

33. The organization of materials and labour, and the handling of problems arising on them; the expansion into or the withdrawal from markets; and the reaction to competition and major periods of difficulty, will all have their stories to tell.

34. Statements setting out the assets and liabilities,

and the funds of a business are particularly within the accountant's field for interpretation. Perhaps I have no need to stress the factors of financial accuracy, solvency and adequate liquidity. Unbalance which is not within ready control spells difficulty ahead and perhaps danger. The needs of the business for stock, and for cash should be reconciled with the figures revealed. Too much cash or too many 'other' assets which are not being put to good use in the company may be an embarrassment in the deal or alternatively a bull point for the purchase, should the acquirer be anxious to acquire such assets. No item in these statements should remain unchallenged and unjustified.

35. Share capital structure can raise some pretty knotty problems. Many of these knots may have to be untied or cut through before the acquisition can take place. Gearing of prior capital and loans to equity capital needs consideration and views must be taken on their relevance in a new situation.

36. It is the trend in whatever context which is of the greatest importance. Progressive development of management, of production and sales, and of financial strength, are the signposts of judgment which point to the desirable acquisition.

Negotiation and valuation

37. After the acquiring concern has had an opportunity to consider any report produced at whatever stage of the investigation, discussions at successively senior levels will take place between representatives of the parties. As indicated there may well be quite a number of reports. This series of reports will progress from a sketchy preliminary draft to a complete and formal document for board level decision. Likewise interview and discussion will progress from a preliminary exploratory chat to full-scale meetings with both sides assisted by professional advisers (usually accountants and solicitors). Discussions, apart from elucidating information, will deal with price, manner of consideration, timing and method of deal, and the conditions under which the acquisition will operate in the future. It is important to appreciate that the sale of a business (particularly by a controlling shareholder where he has created the concern or has been associated with it for a great many years) is a matter of human significance and especially so to the vendor. Meetings therefore require careful and sensitive handling. If at any point it is evident that a deal is plainly out of the question, this should be made clear at the earliest opportunity. It is also important that propositions should be dealt with expeditiously and that there should be an early understanding of the timing and method of negotiation likely to be involved.

38. Before considering the question of valuation of businesses, I would emphasize that given adequate and appropriate advice and knowledge on both sides, the eventual price agreed upon is essentially a matter of negotiation. Such negotiation will not always give

the same answer even with the same facts and the same people. The pressures to buy or sell and the course of the negotiations themselves exert enormous influence. Personal feelings, reactions and prejudice play their part too. Reputable principals and advisers will ensure that full disclosure of all relevant facts is made and that (all other things allowing) a 'fair' price is arrived at. In such ways are business reputations established, a far more valuable factor than temporary financial advantage.

39. Some business vendors come to a negotiation with preconceived (but uninstructed) ideas of the value of their firms. It is in the course of investigation that a proper idea of the value is built up which will provide the range of negotiation. Since the purchase of a business as a going concern is in the great majority of instances an investment upon which an adequate return will be expected in the future, any valuation in these cases must take account of the probabilities of such return. Such a valuation – the 'earnings' value – is arrived at by multiplying maintainable profits by an appropriate 'earnings' yield factor. For example a business earning £100,000 profit before tax, on a 25 per cent 'earnings' yield, is valued at £400,000. Where current replacement values of assets in use exceed 'earnings' value for whatever reason then such 'assets' basis may be more appropriate. Tillings in practically every case buy a going concern on an earnings basis. On occasions the price paid calculated on this basis has shown a discount on the 'assets' valuation.

40. The appropriate 'earnings' yield percentage will vary with the following factors:

- (a) Current interest rates.
- (b) Existence of a stock exchange quotation or dealing, i.e. degree of marketability.
- (c) Size of concern in overall value – usually the larger the business the lower the yield.
- (d) Proportion of goodwill likely to be included in the price – normally the greater the proportion of goodwill the higher the yield.
- (e) Element of speculation in the business and the degree of risk to the acquirer. Consider, for example, the high risk of a business which is literally a 'one man band'. By and large the greater the risk the higher will the yield percentage need to be.

In arriving at and agreeing the earnings yield and consequently the value of the business, much will depend upon the strength of the powers of bargaining and argument of the parties to the deal.

41. Over the last ten years or so an investment in a well-known public company on average would have shown an initial dividend yield of about 5 per cent per annum. During this period the average profits cover expected for dividends of this size was about three times. My own company's private company investment experience over the period shows

that the figures mentioned should be about doubled. As you will see this gives an average 'earnings' yield for private companies of about 30 per cent. Currently both dividend yields and cover for public companies tend to be lower but again in my own experience private company investment still tends to be about the 30 per cent figure. These are averages however and as such are unreliable for the individual case.

42. The factors affecting the level of 'earnings' yields are in many aspects common to those relevant to the concept of return on capital. The Institute in its publication *Business Efficiency* stated that in arriving at the 'return' on capital appropriate for a business, account must be taken for:

- (a) The need to provide funds for fixed asset replacement where depreciation has been on an historic basis and has provided inadequate funds for replacement.
- (b) The need to provide funds (other than from new capital) to weather recessions and setbacks likely to be encountered in the trade and to finance reasonable growth and expansion.
- (c) The need to provide funds to pay adequate dividends and to show an appropriate earnings cover thereon.

Return on capital has usually to be a great deal higher than is generally supposed to allow for these factors and for taxation as well.

43. There is probably no right 'rate' (whether 'earnings' yield or return on capital) for any particular company but there may well be a right 'return' level in relation to an industry and the service that that industry is giving to the community. The industry supplying a service which is needed will get the return it deserves. Within a given business activity some firms are effective and others are not so. It should be noted that high margins and rates of return as a matter of policy are not necessarily desirable as this may invite interlopers and unwanted competition. A lower return may give greater strength and security and for a longer period of time. Such a company in turn could command a greater valuation.

44. The difference between capital employed in a business – for this purpose defined as the net assets – and the purchase valuation will represent either goodwill or negative goodwill. Where current values of assets are not dealt with by revaluation on the face of a balance sheet, goodwill will contain unrecorded variations from balance sheet values.

Substantial goodwill in a valuation – to the extent that it does not represent unrecorded asset appreciation – may well accompany a special situation such as the existence of a highly personal business depending upon the efforts and existence of perhaps one particular individual in the business. A high proportion of goodwill in a price may also exist where profits are high due to special trading features such

as a virtual monopoly or a valuable trade name. The risk of termination of these favourable situations will obviously need to be taken into account in fixing the appropriate 'earnings' yield.

The form of a deal

45. At first glance the form of a deal might appear to have few points of substance for consideration but in fact there are a multitude of problems. There are also a great variety of possible solutions.

46. It must be ensured that the company to be acquired is in a form or will in due course be in a form suitable for an association. In order to reach such a form the following may have to take place:

- (1) A reduction of capital.
- (2) An issue of new capital:
 - (a) to capitalize loans;
 - (b) to provide funds to pay off loans;
 - (c) to acquire associated companies of the vendor to form a single group for acquisition;
 - (d) to capitalize profits.
(The renunciation of newly issued 'bonus' shares to the acquirers has the advantage of not involving the stamp duty which would otherwise be payable on a transfer of existing shares.)
- (3) The formation of a new company to take over the business to be acquired with the exclusion of any assets not to be part of the deal. The old company may or may not then be liquidated. Alternatively such a reconstruction may be effected after a purchase of the whole of a business.
- (4) The payment of dividends – revenue or capital – to provide for surtax clearance or to divest the business of unwanted assets. The dividends could be *in specie* or in cash.
- (5) A reorganization of the capital structure in rights and/or values.
- (6) A revision of the memorandum and articles.
- (7) A conversion to a public company or to a private company.
- (8) The obtaining of a stock exchange quotation.

47. The proportion of the capital to be sold needs to be agreed, as also from whom this capital is to be acquired. If it is intended that the acquisition is to be a subsidiary, then the requirements of the Companies Act, 1948, in this respect must be satisfied. If control for the passing of special resolutions is to be assured, then a 75 per cent minimum holding in the voting strength is necessary. Broadly a 75 per cent holding in the equity will also enable grouping for profits tax and for effective subvention payments for taxation purposes.

48. Certain questions affecting key executives may now be considered. It may well be desirable to

arrange for the introduction, amendment or elimination of service agreements. Service agreements are often looked upon by executives of an acquired company as a form of security. If good relations are not capable of being maintained, the only assurance they bring is perhaps of compensation on dismissal. While they have contractual force they also (and perhaps more significantly) effect a moral tie which from the acquirer's point of view may well be of great advantage for a highly 'personal' business. However, the maintenance by the manager/vendor of a stake in the business is often of greater force and incentive. Compensation for outgoing directors needs consideration since if this is to be paid as part of the deal, information must be provided in any written offers made and approval of the members of the acquired company must be obtained. Levels and methods of remuneration for key executives need also to be decided, as will the constitution of the new board.

49. What of the consideration? This can be satisfied in a number of ways:

- (1) cash
- (2) shares in the acquiring concern
 - (a) ordinary
 - (b) preference
- (3) loan stock or debentures in the acquiring concern
- (4) other assets in kind such as
 - (a) securities in other concerns
 - (b) other property
- (5) a combination of any of the above.

50. If shares in the acquiring concern are to be issued, questions then arise as to the following conditions of issue:

- (1) The price of issue.
- (2) The ratio of exchange to the acquired shares if no price is to be mentioned. (A problem arising here is the assessment and recording of any premium on issue, e.g. where there is a one for one issue of £1 shares. Some accountants establish the value of the exchanged shares while others base entries on nominal values. The Council of the Institute in a submission to the Jenkins Committee in February 1961 have proposed that Section 56 of the Companies Act, 1948, should be amended to ensure that a proper value is placed upon all shares issued by a company, whether for cash or other than cash. Any excess of such value over the nominal amount of the new capital would be treated as the premium. The difficulty is of course ascertaining 'proper value' which the Council suggest must be determined by reference to all relevant information.)
- (3) The rights to dividends yet to be declared.

51. Where various classes of capital with varying

rights exist in the acquisition and more than one category is to be the subject of purchase then the valuation of the different classes concerned will need to be arrived at equitably.

52. The date as from which the acquisition is to be acquired needs to be fixed. Normally this should be the day when the property in the capital of the acquisition passes to the new owners. A practice is arising whereby acquisitions are back dated over very long periods, often amounting to years. Occasionally acquisitions are also forward dated. These practices can cause considerable complication in the establishment of pre-acquisition reserves for consolidation purposes.

VI. Take-over Bids

53. A take-over bid is a special form of acquisition offer, and much of what has gone before is equally applicable to such bids. Such a bid is usually directed at a company where there is no restriction on the transfer of its fully paid shares, which by and large means a public company with a stock exchange quotation and rights of dealing.

54. The description 'take-over' bid may be defined as 'a general offer to acquire shares or other securities of a particular class or classes made with the intention of obtaining a controlling interest in the equity capital of the company and involving both a time limit for acceptance of the offer and a minimum volume of acceptances'.

The special causes of take-over bids

55. The Stock Exchange price of a share, while making due allowance for a number of other factors, is primarily based on current and estimated future dividends, the cover over dividend which earnings provide and the company's profit record. Any potential surplus which would arise on a revaluation is not normally reflected in share prices unless there is either a take-over in the offing where the bid is likely to be based on current asset values or the company is likely to be liquidated. Certainly since 1945 while on the one hand inflation has pushed up the value of most companies' assets, on the other, Government exhortation, considerations of surtax and, prior to April 1958, the high rate of distributed profits tax, have tended to keep dividends down. Unduly low share prices due to the payment of conservative dividends, and the gross understatement of assets in terms of current values have made many companies into sitting targets for would-be bidders, particularly where such bidders have considered they could employ the company's assets to better advantage than could the existing directors. It has also been said that the Eighth Schedule to the Companies Act, 1948, has helped to produce many take-over bids by requiring companies to furnish accounts in far greater detail than was the case under earlier legislation. The widespread holding of many public company shares has also assisted the task of

the take-over bidder, for a scattered body of shareholders (unless organized by a rapidly-marshalled shareholders' committee or by fervent Press comment) is not at all well situated to bargain for a better price or inclined to resist the temptation of an offer. Shareholders may often be thankful to accept what is in their eyes a favourable price since it exceeds the current market value and possibly also exceeds expectations of improvement to the stock-market value of their shares under their present directors.

Take-over bid operations

56. Many take-over bid acquisitions take place smoothly and with little public comment. In many of these cases, before the offer is announced the boards of the companies concerned have completed their discussions and with the help of professional advisers have drawn up and agreed mutually satisfactory terms for the offer to be made. Thus all the necessary details of the deal are received simultaneously by the shareholders of each company concerned, together with recommendations from their boards and the shareholders are in a proper position to see what is in their best interests and to give their acceptance if that is their decision. Instances do occur however in which the board of a company making an offer has not sought the agreement of the board of the company which it wishes to acquire or having sought it has failed to obtain it. Situations also arise in which competing offers for the same company are made simultaneously by two or more offerors. Although the offeror in a take-over bid is seeking to make a bargain with the shareholders of a company, their board of directors is normally the best channel of approach and should also be the best source of advice for those shareholders. Many consider it imperative that the board of such a company should inform its shareholders of any offer received as soon as is reasonably possible. Whether or not it recommends the acceptance of an offer the board should make every effort to supply its shareholders in good time with such information as will enable them to make up their minds on the offer.

57. When talks are proceeding which may lead to an offer being made it is important to do everything possible to maintain secrecy. To prevent a speculative market arising in the shares concerned, a preliminary announcement may be necessary prior to disclosing the full details of the offer. However, it is normally unwise to make any announcement until it seems certain that an offer will in fact be forthcoming.

58. Objections to take-over bids arise because bidders sometimes go wrong in carrying out the operation. Mr Harold Wincott has suggested that 'take-overs have come into disrepute in many people's minds simply because those involved have gone to almost any lengths to obstruct them or advance them'. An obvious and relevant point is the need to ensure that a bidder is able to pay what he

has promised. Voluntarily, many bids involving cash are today being supported by a banker's guarantee as to the availability of the money to be required as consideration. It is reprehensible that shareholders should not be given the fullest information when they are asked to part with their property; that some shareholders should receive more favourable terms than others; and that a reasonable time is not allowed for acceptances.

59. Compensation for redundant employees, including directors, always needs careful consideration. In the case of payments to directors, shareholders should be given the fullest information as to any proposed compensation payments and also as to any re-employment in a different capacity.

Resistance to take-over bids

60. There have been many recent examples of resistance by a board to a take-over bid, both successful and otherwise. The task of a prospective bidder is usually made more difficult by raising the share price. This has been achieved in a number of ways either singly or together:

- (a) A revaluation of the company's assets to bring them up into line with current values.
- (b) An issue of bonus shares so as to make the worth of a company more nearly reflected in its share capital.
- (c) A repayment of surplus capital.
- (d) Raising the dividend or paying a special bonus or capital dividend.
- (e) Indicating current and prospective profitable developments in the company's technical progress which under the existing management will within a short time come to fruition.

61. A take-over can be forestalled either by having a closely held majority interest in the equity or by maintaining a large part of the equity in non-voting shares, which enables a closely held minority interest to control the company. Such control is often held by the entrepreneur whose genius and effort has built and is building the business. It is claimed on behalf of the minority controlled company that non-voting participation safeguards the entrepreneur's contribution and gives others a chance to share in the prosperity of the concern in exchange for their capital subscription albeit non-voting. Many arguments exist today over the propriety of equity shares without votes. Broadly since these non-voting shares are usually to be purchased at a discount to the controlling voting shares public opinion tends to accept that the buyer must be aware, and perhaps on occasions must beware, of the nature of the article for which he is paying.

62. Is it proper for directors to resist take-over bids at all? It seems clear that the principal duty of a board is to consider the interests of the shareholders as a body. It is understandable for the emotions of

directors to be aroused for personal reasons but the position of a director is one of trust which must rule out any special consideration for the interests of individual directors as such. However, the question is now being asked on more and more occasions as to whether in a take-over the interests of the staff and the workpeople in the companies involved should not also be considered. This is a social problem and one on which no doubt we will hear a great deal in the coming years.

63. Many boards in the past have tended to adopt excessively slow and unenterprising schedules for the development of their businesses. The post-war advent of the take-over bidders with their shorter term and more vigorous outlook has impelled many boards to revise the rate and size of their programmes and this has almost certainly been a move in the right direction for the obtaining of that adequate expansion in our economy needed to provide the higher standards of living that we all seek.

The Council's submission

64. Many of the recent pronouncements on the regulation of take-over bids both generally and to the Jenkins Committee on Company Law, are aimed at the means and manner in which they are or should be made. Certainly most informed professional and commercial opinion recognizes that the take-over is an acceptable and normal feature for an economy based on free enterprise. Nevertheless concern is felt for the persons whose shares are the subject of a take-over bid, that they may be properly informed. The Council of the Institute in its recent submission to the Jenkins Committee stated that it considers legislation the proper means of dealing with this matter so that any company or other person would be free to make a take-over bid provided there is compliance with the provisions of the law.

The submission of the Council is basically aimed at the provision of adequate information and the regulation of procedure. In particular it has been submitted that: 'It should not be permissible to make a general offer to shareholders to purchase their shares or part thereof unless the offer satisfies the conditions for a "valid bid".' The 'valid bid' is then defined. Such definition is in my view unexceptional and is very much in line with other submissions. Many of the points made have already been incorporated in the 'Take-over Rules' - 1960 which are considered below.

The 'Take-over Rules' - 1960

65. Under the Licensed Dealers (Conduct of Business) Rules 1960 (the 'Take-over Rules') which arise under the Prevention of Fraud (Investments) Act, 1958, a take-over bid may effectively only be made through a dealer authorized under that Act, usually a banker or stockbroker. By an exception specified in the Act, circulars containing offers by a parent company to minority shareholders in a sub-

sidary can be sent directly to shareholders by the acquirer and need not be transmitted through an authorized dealer.

66. The 1960 rules introduced the first official requirements in relation to take-over bids. Although the rules do not apply to private transactions or to bids to minority shareholders, current City opinion holds that any offer should nevertheless observe the standards contained in these rules. The offer, which must be in writing, has to give, *inter alia*:

- (a) Various information concerning the securities involved in the deal.
- (b) Statements that the offer shall remain open for acceptance for at least twenty-one days from the date of dispatch of conditions of minimum acceptances and of the latest date on which the offer can be declared by the offeror to become unconditional.
- (c) An undertaking that if the offer relates to less than the total amount of any issue of the class of securities involved, then in appropriate circumstances there will be a rateable reduction in the acceptances where these exceed in total the total amount for which the offer is being made.
- (d) Details of the securities already held by or on behalf of the offerors and particulars of any material change known to the offeror in the financial position of the company to be acquired, since the date of the last published balance sheet.

67. A recommendation for or against a take-over bid, by or on behalf of the board of directors of the company to be acquired, is not required under the 1960 rules. However, where such a recommendation is made the rules lay down what must be included.

68. As an addition to the requirements of the 'Take-over Rules' on directors' recommendations it has recently been suggested that shareholders who have received a bid should also be presented by their board with an up-to-date statement of earnings; an independent contemporary valuation of assets and where the offer is in the form of a share exchange, an earnings and dividend forecast in respect of the shares to be received in exchange.

The Stock Exchange regulations

69. A take-over offer made by a public company is deemed for the purposes of the London Stock Exchange regulations to be a prospectus. The Stock Exchange requirements for a prospectus include the provision of, amongst other details:

- (a) A statement on the financial and trading prospects and the working capital arrangements of the acquiring company.
- (b) A report made by named qualified accountants with respect to the profits or losses, and the assets and liabilities of the business to be acquired.

- (c) Particulars of the interests of any directors of the acquiring company in the businesses to be acquired.

Section 209, Companies Act, 1948

70. Section 209 of the Companies Act, 1948, effectively provides that where an offer by one company to purchase shares in another has been approved by nine-tenths in value of the offerees, then shares of any of the remainder may be acquired compulsorily. Approval by offerees where the company making the offer already holds more than one-tenth of the shares involved must also be in respect of not less than three-fourths in number of such offerees, besides holding not less than nine-tenths in value of the shares involved.

71. Where the offer has been approved by the prescribed majority the Court will incline to the view that the offer is a fair one unless the dissenting shareholder can prove otherwise (*Re Hoare & Co* ([1933] 150 L.T. 374)).

72. There has been a case recently affecting Section 209, *Re Bugle Press Ltd* ([1960] 1 All E.R. 768). The Court of Appeal has affirmed ([1960] 3 All E.R. 791) the decision of the High Court whereby the minority shareholder was supported in his resistance to the attempted operation against him of Section 209 for the compulsory acquisition of his shares. The facts were that two shareholders,

S. and J., between them held 90 per cent of the shares in the B. company, and T. the other 10 per cent. S. and J. promoted and took all the shares in a transferee company which made an offer for the shares of the B. company. S. and J. were willing to accept the offer (naturally enough) but T. refused. In proceedings under Section 209, the High Court held that T. was justified in his refusal. In substance the majority shareholders were the same persons as the transferee company and the Court refused to allow the minority shareholder to be expropriated by the majority.

73. In March 1961 in a High Court case (*Ridge Nominees v. C.I.R.* ([1961] 2 All E.R. 354) affecting stamp duty, it was decided that a compulsory transfer under Section 209 was not a 'conveyance or transfer on sale' within the Stamp Act, 1891, as there was no consensus between the vendor and purchaser. Such a transfer therefore only required a 10s stamp and was not assessable *ad valorem*.

74. One of the witnesses before the Jenkins Committee has put forward a proposal whereby all takeover bids would be handled under Court supervision. He also added that since Section 206 gave the owners of a 75 per cent holding of the capital involved the means of ensuring the acquisition by a third party of 100 per cent of that capital, this to him seemed a good reason for reducing the 90 per cent in Section 209 to 75 per cent.

(To be concluded.)

Weekly Notes

The Institute's Examinations

A TOTAL of 3,669 candidates sat for the May examinations of The Institute of Chartered Accountants in England and Wales. Of 1,498 candidates for the Final examination, 693 (46.3 per cent) passed and 805 failed; in the November 1960 examination 797 (49.7 per cent) passed and 807 failed.

The First Certificate of Merit, the Institute Prize and the W. B. Peat Medal and Prize were won by Mr David John Williams, of Newport, Mon. The Second Certificate of Merit, the Walter Knox Scholarship and the Plender Prize for the paper on Advanced Accounting (Part I) were won by Mr Peter Ashby Bird, of London, and the Third Certificate of Merit and the Plender Prizes for the papers on English Law (Part I) (equal with one other), English Law (Part II) and General Financial Knowledge, Cost and Management Accounting were won by Mr Robert Aron May, also of London.

In the Intermediate examination there were 1,956 candidates of whom 944 (48.3 per cent) were suc-

cessful and 1,012 failed; in the November 1960 examination 1,051 (48.9 per cent) passed and 1,097 failed.

The First Certificate of Merit, the Institute Prize and the Frederick Whinney Prize were won by Mr Richard Jonathan Beaver Stein, of London. The Second Certificate of Merit, the Robert Fletcher Prize and the Plender Prize for Book-keeping and Accounts (Limited Companies) were won by Mr Philip Gregory Matthew, also of London, and the Third Certificate of Merit, the Tom Walton Prize and the Plender Prize for the papers on Taxation and Cost Accounting (equal with one other) and Book-keeping and Accounts (Executorship) were won by Mr Brian Ernest Cripps, of Manchester.

In the Preliminary examination there were 215 candidates of whom 71 (33 per cent) passed and 144 failed; in the November 1960 examination 81 (37.2 per cent) were successful and 137 failed.

A full list of successful candidates, together with a summary of the results, appears elsewhere in this issue.

The Society's Examinations

THE three Chartered Institutes, in accordance with the schemes of integration with The Society of Incorporated Accountants (in voluntary liquidation) conducted the Final examination of the Society

in May. There were eighty-one successful candidates eligible for membership of the English Institute; one successful candidate eligible for membership of the Scottish Institute, and ten successful candidates eligible for membership of the Irish Institute.

A list of successful candidates, together with a summary of the results, appears elsewhere in this issue.

The Eglinton Hotels Affair

THE Board of Trade investigation into the affairs of Eglinton Hotels (Scotland) Ltd, undertaken on the application of a minority of shareholders, has revealed what the two inspectors, Mr J. O. M. Hunter, Q.C., and Mr T. C. Currie, C.A., described as a 'serious disregard of the interests of shareholders' for which Mr Laughton McLachlan must bear the main responsibility. The report (dated July 26th, 1960) was published on August 10th by H.M.S.O. price 2s.

Mr McLachlan controlled the Eglinton group of hotels among several others and the inspectors report that 'they were unable to ascertain the precise interrelationship between these various companies and interests', adding the comment that 'upon this, as upon many other matters in which he had an interest and of which he must have had personal knowledge, the evidence of Mr Laughton McLachlan was vague, unhelpful and unsatisfactory'.

The transfer of the head office in January 1958, coupled with lack of staff, led to numerous principal documents being lost and the book-keeping fell seriously into arrear, while between January 1958 and September 1959 there was no satisfactory control of payments to creditors. During the audit of the books for the year to October 31st, 1958, the auditors sought unsuccessfully – both by letter and by interview with directors – to obtain explanations for a series of matters. In the event, the auditors' report on the accounts was qualified in the following terms:

'We are not satisfied that all invoices rendered to the company and all payments made have been for goods supplied or services rendered . . . we are unable to report that . . . the Balance Sheet and Profit and Loss Account give, respectively, a true and fair state of the company's affairs at October 31st, 1958, and of the loss for the year to that date.'

The inspectors' report deals at length with these points and concludes that they demonstrate a gross lack of control for which the main responsibility lay with Mr McLachlan; Mr J. Dawson and Mr J. Walker must also bear some responsibility, although, state the inspectors, 'it is doubtful whether either of these gentlemen had the necessary qualifications or experience for the positions . . . they held in the Eglinton company'.

In accordance with the provisions of Section 169 of the Companies Act, 1948, the report was referred to the Lord Advocate, but it has been decided that the evidence does not warrant criminal proceedings. Since the publication of the inspectors' report the

new Eglinton board, which took over in September 1959, has stated that 'the laxity of control criticized by the inspectors no longer exists' and it has also lodged claims totalling more than £16,000 against Mr McLachlan, Mr Dawson and the George Hotel (Glasgow). The latter hotel is one of Mr McLachlan's interests.

Earnings Increases Over Half a Year

THE average earnings of male manual workers in industry reached just over £15 a week in April, according to provisional figures issued by the Ministry of Labour. This is a rise of 3.7 per cent on the figure six months previously. This extra money was earned over a slightly reduced average working week compared with October 1960.

The increase in women's earnings in all industries went up less steeply. Their earnings increased by 2.9 per cent and their average earnings were £7 12s 7d. On the other hand, the number of hours worked fell rather more in the case of women than in the case of men.

Weekly earnings will have increased still further since April. The Ministry of Labour's index of weekly wage rates went up from 124.2 in April to 125.0 in June. This was accompanied by a further slight decline in the normal weekly hours worked.

Atlantic Air Traffic

ALTHOUGH the latest statistics of the International Air Transport Association show a further rise in trans-Atlantic air traffic in the second quarter of this year, the rise was very much less than that recorded in 1960.

In the three months April to June 1961, 500,277 passengers were carried on scheduled Atlantic flights by airlines who are members of the Association. This represented an increase of 4.5 per cent on the 478,751 passengers carried in the second quarter of 1960 which in turn showed a rise of no less than 26.8 per cent on the corresponding figure for 1959. By contrast, the number of scheduled flights rose by 18 per cent between the second quarter of 1960 and the corresponding period of 1961, but in view of the introduction of larger planes the number of seats available for sale in both directions rose from 675,298 to 994,989, an increase of 47 per cent.

The disappointing expansion of passenger traffic has been to some extent offset by further rapid expansion in the volume of cargo and mail carried, by 35.2 per cent and 38.4 per cent respectively.

Export Expansion

WHILE the degree of success which will be achieved by the recent austerity measures in improving Britain's balance of payments is still unknown, considerable interest attaches to methods proposed elsewhere with the object of increasing exports. In the United Kingdom there has been controversy as to whether restriction of the home market

will in the long run encourage exports. The Indian Government is, however, reported to have approved a scheme which goes considerably further than anything yet proposed in Britain.

Under these proposals, strict limits would be imposed on home sales of certain products with the object of making the balance of production available for export. The background to the scheme is the need to increase Indian exports by some Rs1,000 million per annum if the export target set by the present five-year plan (referred to in last week's issue) is to be attained.

In India, as in the United Kingdom, restriction of home sales may have some small success in forcing producers to pay more attention to export markets, but it does nothing to cure the fundamental reason for the failure of exports to expand sufficiently rapidly. Initially it may increase the difficulties of Indian manufacturers by forcing up costs which have already been shown in many instances to be far from competitive. In the long term, therefore, India is likely to derive greater benefit from the various study groups which have recently been established in particular industries with the object of reducing costs.

This is My Life . . .

by An Industrious Accountant

CHAPTER 85

IT'S a bad thing to have a guilty conscience. There's an episode in my past that sometimes comes back to worry me, though I push it aside as spilt milk that's useless to cry about. However, it resurrected itself suddenly last Saturday morning. I was having a quick cup of coffee down town when I saw the man in question.

It happened years ago when I was a young secretary/accountant *pro tem.*, helping to organize the launching of a new factory and responsible for wages – among other things. My number two, a fussy senior, came in with a problem presented by his own happy-go-lucky young assistant; they wanted me to solve it for them.

It had all started with our junior cashier, a hefty, domineering type, who had been taking his annual leave in single Mondays over a period, to suit his football career, an arrangement which we had allowed as a special concession. We didn't object provided he understood clearly the days *were* part of his statutory paid vacation, which would ultimately be diminished proportionately, and the assistant had explained accordingly. Now the cashier was suddenly claiming his full summer holiday with pay, on the grounds that he always thought the odd days were exceptional leave allowances and that he never knew they'd be deducted from his fortnight.

Fussy and his assistant had stood their ground, fairly enough, whereupon the cashier capitulated and admitted that they were right; he then cheekily enough requested the fortnight as a concession. That rather demoralized them, so they came to me.

I asked them what they wanted to recommend in order to teach them to accept responsibility, as the facts were clear, but they wouldn't favour the concession. The cashier was always a trouble-maker and a trickster, and they resented his manoeuvring, they

said; let him have just his due. So I agreed. My inclination had been towards leniency, but I left them the decision deliberately.

So the assistant paid what was due to the cashier, who grumbled and growled, whereupon the assistant apparently faltered. He said that he himself had actually wanted to grant the extra but Fussy wouldn't agree, a surrender that the cashier threw back at Fussy later. So Fussy, outraged and angry, came in to me to demand reprisals. A nice little dilemma.

Well, I was young and intolerant and disliked duplicity. I summoned the assistant and really blasted him . . . loyalty . . . team-spirit . . . selling the pass . . . currying favour by letting down his boss, and moral cowardice . . . he went white to the lips. He stood stilent and ashamed, and because he didn't say he was sorry I thought he was sullen. I said the unforgivable; I said brutally I'd sack him on the spot if he put a foot wrong just once more; it was his last chance. His eyes went suddenly pathetic; he looked sick as he left me.

I never saw those men again, as their company just then appointed a whole-time secretary, but I found it hard to forget the assistant's hurt face afterwards. True, he was a bachelor without family responsibilities, but I had hit too hard; I felt ashamed.

Now, suddenly, years afterwards, he was drinking coffee at the next table with a pretty girl and staring straight at me. He was suddenly coming over, bigger, more imposing than in the past; I felt again the twinge of uneasy guilt . . . would he say I'd wrecked his life?

He didn't. He was beaming, his handclasp was warm, he was chatting animatedly. 'Well, well, after all these years . . . our old secretary again . . . never forget how you saved my bacon that time I had the compensating error in the trial balance!' And his wife, bright-eyed, happy ' . . . he's always saying how much he owes you, how well you looked after your staff in the old days'.

Well, what do you know? There's a moral to be drawn somewhere, but I can't quite analyse it; I only know the little incident has lifted a load from my shoulders.

THE MAIDSTONE & DISTRICT MOTOR SERVICES LIMITED

Balance Sheet 31st March, 1961

1960 £	£	1960 £	FIXED ASSETS—	Cost £	Aggregate Depreciation £	Balance £
CAPITAL—						
Authorized and Issued—						
200,000	200,000	732,597	Freehold Land and Buildings	784,053	—	784,053
1,500,000	1,500,000	20,796	Leasehold Land and Buildings	34,898	14,575	20,323
1,700,000	1,700,000	1,555,045	Rolling Stock	3,392,798	1,734,050	1,658,748
		21,154	Plant and Machinery	83,088	56,754	26,334
		1,901	Trolleybus Equipment and Plant	—	—	—
		9,971	Office Furniture and Fittings ..	31,458	17,531	13,927
226,899	226,899	2,341,464		4,326,295	1,822,910	2,503,385
9,734	7,849	183,017	Goodwill	183,017	—	183,017
236,633	234,748	2,524,481		£4,509,312	£1,822,910	£2,686,402
REVENUE RESERVES AND UNDISTRIBUTED PROFITS—						
1,450,000	1,590,000	107,980	Shares and Debentures, at cost	.. .. .	.. .. .	107,980
86,000	90,000	2,632,461				2,794,382
156,103	156,834					
1,692,103	1,836,834					
3,628,736	3,771,582					
CURRENT LIABILITIES—						
216,781	264,712	120,686	Stores and Materials, at or under cost	.. .. .	.. .. .	127,070
37,219	35,771	86,731	Debtors and Payments in Advance	.. .. .	.. .. .	91,911
3,981	3,981	344,210	British Government Securities, at cost	.. .. .	.. .. .	146,530
		420,000	Temporary Loans to Associated Companies and Local Authorities .. .. .	.. .. .	.. .. .	620,000
		207,850	Tax Reserve Certificates .. .. .	.. .. .	.. .. .	250,000
91,875	112,500	166,654	Cash at Bankers, at Short Call and in Hand	.. .. .	.. .. .	158,653
349,856	416,964	1,346,131				1,394,164
NOTE— There are commitments for capital expenditure (under contract or pending) not provided for in these Accounts amounting to approximately £355,000.						
£3,978,592	£4,188,546	£3,978,592				£4,188,546

R. P. BEDDOW }
P. G. JAMES } Directors

REPORT OF THE AUDITORS TO THE MEMBERS OF THE MAIDSTONE & DISTRICT MOTOR SERVICES LIMITED

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the above Balance Sheet and the annexed Profit and Loss Account which are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given to us, the said Accounts give the information required by the Companies Act, 1948, in the manner so required and the Balance Sheet gives a true and fair view of the state of the Company's affairs as at 31st March, 1961 and the Profit and Loss Account gives a true and fair view of the profit for the year ended on that date.

CORNWALLIS HOUSE,
MAIDSTONE,
9th JUNE, 1961

LARKING & LARKING,
Chartered Accountants,
Auditors

About the time of the 1960 wages settlement, several industries in the company's area adopted a Monday to Friday five-day week, and made more intense an already heavy series of bad rush-hour periods, adversely affecting the operating efficiency of the fleet. The resulting problem was eventually overcome but has so stretched the availability of staff and vehicles that little elasticity is left, especially on Fridays. In the main, the company's appeals for staggering of starting and finishing times of work 'have fallen on deaf ears'.

Operating efficiency has been improved following research on traffic measurement. One line was the curtailment of 'relief' vehicle journeys, not sufficiently patronized, by the introduction of large-capacity vehicles on scheduled journeys. One-man buses and smaller capacity units have helped on the lightly patronized routes.

Fuel Tax

Mr Beddow's other principal worry is the fuel tax—2s 6d a gallon when he wrote his statement and now 2s 9d a gallon following the fresh increase under the 'Little Budget'. On the other hand his grave concern about a possible payroll tax 'which must, in the end, rebound on the public we seek to serve', has at least been temporarily put at rest.

He welcomes the increase in speed limit outside restricted areas from 30 to 40 m.p.h., but wonders 'why our drivers, who are among the best in the country and whose vehicles are maintained to the highest standard, should still be subject to a selective speed limit at all, as compared with many doubtful private cars'.

On the findings of the Jack Committee, he regards as 'completely unrealistic' the main conclusion of the majority report that unremunerative rural services should be bolstered with direct subsidies by the county councils.

He backs the minority report, supported generally by bus transport operators, that financial assistance should be given by way of fuel tax relief.

After the Flood

SIR JOHN HEATHCOAT AMORY, chairman of John Heathcoat & Co Ltd, manufacturers of elastic and other textile materials, reckons that the floods in Devon—'by far the worst flood that has ever visited Tiverton'—must have cost the company some £250,000. Added to the profits as shown in the accounts for the fifty-two weeks to April 1st, 1961, it would have given the company its second best year. As it is, the accounts show that the group profit for the period was only £201,306 compared with £393,559.

Nevertheless, he sees the year as 'happy and moderately successful'. They had been able to make voluntary wage increases in the textile group, employment had been full in almost every section and again they had enjoyed 'excellent relations' between all grades and levels of staff.

CITY NOTES

BERLIN has been added to the unsettling influences on the stock-market and political tension has had its invariable effect of driving away business. Generally, however, the reverse trend away from equities and towards fixed interest stocks, including the gilt-edged market, has continued.

A point now being made about gilt-edged market prospects is that if European Common Market membership eventually leads to an ironing out of odd-year economic crises and to a greater degree of economic and financial stability, Government stocks could well regain some of their lost prestige.

French Rentes were standing at 50 when France helped form the Common Market and now stand at 80. It would seem unwise to suggest that the much maligned War Loan could recover to that extent over a comparable period but it is, at least, within the bounds of possibility.

It is a curious, but probably not surprising, fact, that trustees have now won their investment freedom at a time when the stocks they hold at a loss are recovering, and the stocks they would dearly loved to have bought for capital growth in the past few years have lost their growth gloss.

RATES AND PRICES

Closing prices, Wednesday, August 16th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills

June 9	£4 9s 4¼d%	July 14	£4 11s 4¼d%
June 16	£4 10s 0¼d%	July 21	£4 12s 5¼d%
June 23	£4 10s 8¼d%	July 28	£6 13s 9¼d%
June 30	£4 10s 8¼d%	Aug. 4	£6 14s 3¼d%
July 7	£4 10s 8¼d%	Aug. 11	£6 14s 8¼d%

Money Rates

Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6¾%
Fine Trade Bills		3 months	6½-6¾%
3 months	7½-8½%	4 months	6½-6¾%
4 months	7½-8½%	6 months	6½-7%
6 months	8-9%		

Foreign Exchanges

New York	2·80½-1	Frankfurt	11·19-1
Montreal	2·88½-89½	Milan	1738½-7
Amsterdam	10·08½-1	Oslo	20·00-½
Brussels	139·83½-1	Paris	13·77-1
Copenhagen	19·34½-35	Zürich	12·08½-09½

Gilt-edged (revised List)

Consols 4%	58½	Funding 3% 59-69	79½
Consols 2½%	38½	Savings 3% 60-70	75½
Conversion 5½% 1974	88½	Savings 3% 65-75	67½
Conversion 5% 1971	88½	Savings 2½% 64-67	81½
Conversion 3½% 1969	81	Treasury 5½% 2008-12	82
Conversion 3½%	52½	Treasury 5% 86-89	81½
Exchequer 5½% 1966	96½	Treasury 3½% 77-80	67½
Funding 5½% 82-84	89½	Treasury 3½% 79-81	66½
Funding 4% 60-90	86½	Treasury 2½%	38½
Funding 3½% 99-04	56½	Victory 4%	93
Funding 3% 66-68	79½	War Loan 3½%	52½

The Institute of Chartered Accountants in England and Wales

STATEMENTS ON AUDITING

I. General Principles of Auditing

Auditing is an important professional task carrying heavy responsibility and calling for commensurate skill and judgment. Each auditor must decide for himself the nature and extent of the work which is necessary in order to enable him to discharge the responsibility he has undertaken, whether under statutory provisions or by arrangement with his client.

The Council of The Institute of Chartered Accountants in England and Wales considers, however, that it can assist the members of the Institute by issuing for their guidance a series of Statements on Auditing of which this is the first.

This statement is related primarily to audits under the Companies Act, 1948. Other audits must be considered in the light of the relevant circumstances and statutory provisions (if any) but much of this statement, particularly in relation to audit procedure, should be adaptable to those audits.

In relation to matters of law this statement has been settled in consultation with counsel.

(The statement is the subject of a leading article in this issue.)

Introduction

AUDITORS under the Companies Act, 1948, have specific duties laid upon them and they have an obligation to acquaint themselves with those duties. Their statutory duties cannot be limited by agreement with the members or directors of the company; and Section 205 of the Act renders void any provisions, in the articles or otherwise, purporting to exempt an auditor from or indemnifying him against any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust in relation to the company. On the other hand, additional duties and responsibilities may be placed upon auditors by the articles of the company or by special agreement with the members or directors. This may be particularly important where the auditors carry out other work in addition to their statutory duties as auditors. These circumstances are referred to later in paragraphs 30 and 31.

(2) As a general statement of the degree of professional competence required of an auditor, reliance can properly be placed on the observation made by Lord Justice Lopes in *In re Kingston Cotton Mill Co Ltd*¹ ([1896] 2 Ch. 279 at pages 288-90):

'It is the duty of an auditor to bring to bear on the work he has to perform that skill, care, and caution which a reasonably competent, careful, and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case. . . . If there is anything calculated to excite suspicion he should probe it to the bottom; but in the absence of anything of that kind he is only bound to be reasonably cautious and careful. . . . The duties of

auditors must not be rendered too onerous. Their work is responsible and laborious, and the remuneration moderate. . . .'

(3) In the previous year similar judicial guidance on the duty of an auditor had been given by Lord Justice Lindley in *In re London and General Bank* ([1895] 2 Ch. 673 at page 683):

'He must be honest - that is, he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes that what he certifies is true. What is reasonable care in any particular case must depend upon the circumstances of that case.'

(4) The foregoing comments on the auditors' position in law are a necessary background to any consideration of the duties of auditors, but this statement is concerned essentially with the general principles of auditing as a professional assignment rather than with the consequences in law of a failure by auditors to discharge their duties. The Council's object in issuing this statement is not to define the liability in law for such a failure. Its object is to assist members to improve the standards of auditing for the good of the profession and the benefit of their clients and the public.

(5) Responsibility for the accounts and financial control of a company rests upon the directors. Their statutory duties include responsibility for ensuring the maintenance of adequate records and the preparation of annual accounts showing the true and fair view required by the Act. They are responsible for safeguarding the assets of the company and are not entitled to rely upon the auditors to protect them from any shortcomings in carrying out their responsibilities.

(6) Auditors have their own independent responsibility to form and express their professional opinion on the accounts to be presented by the directors to the shareholders. Auditors do not guarantee or

¹ Certain of the rulings made by Lord Justice Lopes on the particular facts of the case before him in 1896 would now be inappropriate in the light of the statutory duties imposed by the Companies Act, 1948.

certify the accounts, but their responsibility is heavy and cannot be discharged without a full realization of the professional skill and judgment which need to be exercised in carrying out their duties. They must approach their work as auditors with an independent outlook and must do nothing which would impair that independence.

(7) If the directors have carried out their duty properly the detailed checking by the auditors will be limited to appropriate tests which, if suitably planned, may extend to only a small proportion of the total transactions unless the company is a small organization in which the scope for internal control is limited. If on the other hand the directors have not carried out their duty properly this will have a material bearing on the terms of the auditors' report and may well involve the auditors in extensive checking, at the expense of the company; but it is not their function to act as a substitute for proper management control.

(8) The essential features of an audit are:

- (a) to make a critical review of the system of book-keeping, accounting and internal control;
- (b) to make such tests and inquiries as the auditors consider necessary to form an opinion as to the reliability of the records as a basis for the preparation of accounts;
- (c) to compare the profit and loss account and balance sheet with the underlying records in order to see whether they are in accordance therewith;
- (d) to make a critical review of the profit and loss account and the balance sheet in order that a report may be made to the members stating whether, in the opinion of the auditors, the accounts are presented and the items are described in such a way that they show not only a true but also a fair view and give in the prescribed manner the information required by the Act.

(9) The auditors should aim to reduce their detailed checking to the minimum consistent with the system of internal control and the state in which they find the records. If their inquiries and tests satisfy them that the system is sound in principle and is carried out in practice, then no useful purpose is served by extensive detailed checking. If on the other hand the system is not sound or is not properly carried out then the auditors must first reach a conclusion as to the nature of the shortcomings before they can decide upon the nature and extent of the detailed checking which they should undertake. Auditors should therefore direct their attention in the first instance to the system of internal control.

Internal Control

Ascertaining the system

(10) By 'internal control' is meant not only internal check and internal audit but the whole

system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records.

(11) Auditors will find it of great advantage to have before them an up-to-date record of the system of internal control. For this purpose they will normally need to make a study of the following matters:

- (a) the characteristics of the company's business and its activities, involving possibly an inspection of its physical assets and operations;
- (b) the system of book-keeping and accounting;
- (c) the duties of the executive directors and staff and the division of responsibilities;
- (d) the system of internal check, that is to say, the checks on the day-to-day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors and fraud; it includes matters such as the delegation and allocation of authority and the division of work, the method of recording transactions and the use of independently ascertained totals against which a large number of individual items can be proved;
- (e) internal audit, if any; where there is an internal audit the auditors should have regard to the Council's *Notes on the Relation of the Internal Audit to the Statutory Audit*.¹

(12) On the first occasion this study of the system will require extensive inquiry and the auditors may find it helpful to prepare for this purpose a comprehensive questionnaire, the answers to which will provide them with a basis for their record.

Examining the system

(13) An examination of the system of internal control will enable the auditors to decide whether they can regard it as satisfactory. Of particular importance is the extent to which the system ensures that the division of work and allocation of responsibility are such that each of the following aspects of the company's activities is sufficiently independent of the others:

- (a) the transacting of business (that is to say, the creation of contractual obligations and of any original records thereof);
- (b) the recording of those transactions in the books and records;
- (c) the custody and handling of the assets involved in the transactions.

(14) A large company should have a comprehensive system of internal control. A smaller company, having less opportunity for division of responsibilities and the institution of internal checks, may have a system which is less comprehensive

¹ See *The Accountant* of August 15th, 1953.

without necessarily being unsatisfactory. This is a matter upon which the auditors must exercise their judgment. The directors of every company, irrespective of its size, have a duty to ensure that there is a proper system of control over the transactions and records and that proper arrangements are made for safeguarding the company's assets. There will usually be some respects in which the possible errors or losses to the business are not sufficiently material to justify the additional expense which would be incurred by extending the control system sufficiently to prevent them.

(15) Apart from the work which the auditors should themselves do if they encounter weaknesses in the system of internal control (as indicated in later paragraphs) it is good practice for them to advise a director or appropriate executive, preferably in writing, with the object of assisting the directors in the discharge of their obligation to control and safeguard the assets of the company.

The Nature and Extent of the Tests to be Applied

(16) Audit procedures should be based primarily on an appropriate series of tests designed to satisfy the auditors that the system of internal control is properly operated and is effective, so that the records can be regarded as a reliable basis for the preparation of accounts. Tests of the detailed transactions should be reduced to the minimum considered necessary by the auditor to achieve this purpose and unnecessary expenditure of time on the massive vouching of routine transactions and extensive verifications of postings and additions should be avoided.

(17) The nature and extent of the tests which the auditors apply will vary according to the strength or weakness of the system of internal control and the nature of the internal checks which exist as well as according to the type of transaction or item which is the subject of examination. It is important to include examinations 'in depth' among the tests to be applied. Examination 'in depth' involves tracing a transaction through its various stages from origin to conclusion, examining at each stage to an appropriate extent the vouchers, records and authorities relating to that stage and observing the incidence of internal check and delegated authority. For example, verification of a payment to a creditor for goods supplied could be made by examination of a paid cheque which had been drawn in favour of the creditor and crossed 'Account payee only'. Complete verification of this transaction 'in depth' might involve the examination of the transaction at all stages including the following documents or records:

- (a) the invoice and statement from the supplier;
- (b) evidence that the goods had been recorded in the stock records;
- (c) the goods received note and inspection certificate;
- (d) a copy of the original order and the authority therefor.

(18) It is sound practice to reduce progressively the number of transactions selected for examination as the depth of the examination increases. For example, it might, in a particular case, be appropriate for the auditors to select one hundred payments to creditors for goods supplied and verify them by examination of the paid cheques properly crossed and stamped by the paying bank; only a proportion of those one hundred payments would also be verified with the suppliers' invoices and statements; a still smaller proportion would be verified in addition by evidence that goods had been recorded in the stock records; and so on until a comparatively small proportion had been verified completely in depth.

(19) For a small company the tests which the auditors make will normally cover a greater proportion of the transactions than is necessary for a larger company where a more comprehensive system of control can be and is operated. In selecting items for examination and deciding upon the extent of the work to be done the auditors should always consider to what extent the transactions under review are material in relation to the affairs of the company as a whole.

(20) In addition to the normal annual audit procedures covering all activities, it is also sound practice to select each year, for a more intensive review of the accounting procedures, one of the main aspects of the activities of the business: for example, sales, wages, receipts from customers, payments to suppliers. Such reviews can usefully be planned to ensure that over a period of years they cover all the main aspects.

(21) Depending on the circumstances it may or may not be necessary for the auditors to extend their tests in certain areas because of deficiencies in the system of internal control. Where, however, the auditors are of opinion that the internal control is inadequate to the extent of casting doubt on the reliability of the records, they will be obliged to undertake a great deal more detailed checking than would otherwise have been necessary. If, even after extensive detailed checking, they have been unable to satisfy themselves that the records are sufficiently reliable to enable the balance sheet and profit and loss account to show the true and fair view required by law, it will be their duty to state in their report that in their opinion books of account have not been properly kept and to make such other reservations as may be necessary.

(22) In exceptional cases, auditors may find that the records and the system of internal control are so seriously inadequate that no useful purpose could be served by embarking upon extensive detailed checking, because even the most exhaustive tests would not enable them to form an opinion on the balance sheet and profit and loss account. In that event their appropriate course will be to report to that effect to the shareholders and to inform the directors of the respects in which the records and system are deficient.

Examination of the Profit and Loss Account and Balance Sheet

(23) The auditors will compare the profit and loss account and balance sheet with the books and records in order to see whether they are in accordance therewith.

(24) In addition, the auditors will make a critical review of the profit and loss account and balance sheet in relation to the following matters:

- (a) whether the accounts have been prepared on sound accounting principles consistent with those applied in the previous period; the distinction between capital and revenue is particularly important to prevent the overstatement of profits by charging revenue expenditure to capital or their understatement by charging capital expenditure to revenue;
- (b) the items in the balance sheet, with particular reference to the basis on which and the amounts at which they are stated and:
 - (i) the existence, ownership and proper custody of assets;
 - (ii) the existence of liabilities;
 - (iii) their relation to the corresponding items at the end of the previous year and, where necessary, earlier years;
 - (iv) the suitability of the descriptions used;
 - (v) an adequate disclosure of information;
- (c) the items in the profit and loss account with particular reference to adequate description, disclosure of information and the significance of variations as compared with previous periods;
- (d) compliance with the requirements of the Act.

(25) The purpose of the work of the auditors is to enable them to express an opinion as to whether the accounts presented to the members show a true and fair view. This purpose should govern their whole approach to the audit, the planning of their tests and the matters to be noted in the audit papers as the work proceeds. If they find weaknesses or matters which arouse their suspicion they should make exhaustive inquiries and if in any material respects they are unable to satisfy themselves it will be their duty to include appropriate reservations in their report, to the extent, if necessary, of stating that they are not able to express the opinion that the accounts show a true and fair view.

Fraud

(26) Irregularities which arise in the conduct of the affairs of a company may be classified broadly into:

- (a) acts or defaults by an employee or a director which are committed without the knowledge of the board of directors; it is the responsibility of the directors to take all reasonable care that the system will prevent such irregularities or bring about their early detection;
- (b) acts or defaults by the directors which are designed to mislead or defraud the members;

(c) acts or defaults designed to defraud the Inland Revenue or other third parties (on which the Council has already issued its statement entitled *Unlawful Acts or Defaults by Clients of Members*).¹

(27) Material irregularities of the above character will normally be brought to light by sound audit procedures but there is nothing in the Companies Act, 1948, which specifically places a duty upon auditors to search for them or to examine the books and accounts with the object of discovering whether there have been defalcations or other irregularities by directors or employees of the company. Lord Justice Lopes pointed out in the *Kingston Cotton Mill* case:

'Auditors must not be made liable for not tracking out ingenious and carefully laid schemes of fraud, when there is nothing to arouse their suspicion, and when those frauds are perpetrated by tried servants of the company and are undetected for years by the directors. So to hold would make the position of an auditor intolerable.'

(28) Although there is no statutory obligation upon the auditors to search for irregularities, the possibility of their existence will be a factor governing the auditors' approach to their work as described in paragraph 9 and in discharging their statutory duties. In normal circumstances they are entitled to rely upon the honesty of the directors and employees of the company. But if, in the course of their examination, their suspicions are aroused they have a clear duty to probe the circumstances to the bottom and to report appropriately to the members.

Auditors' Report

(29) The auditors' report is governed by the requirements of the Ninth Schedule to the Act. They should express their opinion in clear and unequivocal terms. If they are unable to satisfy themselves on any of the matters referred to in the Ninth Schedule they must include appropriate reservations in their report to the members of the company. They are not relieved of this obligation by making a report to the directors even though the directors may comprise all the members of the company.

Other Duties Undertaken by Auditors

(30) Accountants acting as auditors of a company frequently provide other professional services for the company. In particular they may draft for the directors the balance sheet and profit and loss account and sometimes assist with the underlying records; and they may at the request of the directors undertake detailed checking beyond that which is required to enable them to make their report to the shareholders, for example checking with the specific object of ascertaining whether there have been defalcations or other irregularities. In doing work of this

¹ See *The Accountant* of October 12th, 1957.

kind they are not acting as auditors appointed under the Act but are rendering a separate professional service. Such additional services may facilitate their work in their capacity as auditors but do not extend or reduce the responsibilities placed upon them as auditors by the Act.

(31) Where such additional services are rendered the following are important considerations:

- (a) the accountants should not undertake services which would impair their independence as auditors;
- (b) the duty to take all reasonable care that there

is adequate internal control and to present accounts to the shareholders in compliance with the Act rests firmly on the directors and cannot be avoided by them;

- (c) there should be a clear understanding with the directors as to the nature of the responsibility undertaken by the accountants outside their duty as auditors, so that there is no misunderstanding as to the extent to which the directors, in discharging their own responsibilities, are placing reliance upon the additional services provided by the accountants.

Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Government Accounting

SIR, — Perhaps you would be kind enough to forward to your correspondent 'Quinquagenarius' (August 12th issue) the enclosed copy of the Council's report and accounts for 1950 in which he will find, commencing at page 70, the memorandum on Government Accounting which the Council of the Institute submitted in 1948 to the Crick Committee.

Your correspondent could also usefully refer to the Council's report and accounts for 1960 where he will find at page 84 a letter dated February 22nd, 1961, from the then President to the Chancellor of the Exchequer, reminding the Chancellor of the Council's earlier representations that a Finance Bill should be accompanied by an explanatory memorandum.

It is not unhealthy that individual members should be critical of the Council from time to time but the Council is at least entitled to expect that those who wish to publish their criticisms to the world at large should first ascertain the facts, even if they do not take the trouble to read Institute documents when they are received.

Yours faithfully,
F. M. WILKINSON,
Deputy Secretary,
THE INSTITUTE OF CHARTERED
ACCOUNTANTS IN ENGLAND
AND WALES.

London EC2.

Marginal Costing

SIR, — May I say how much I enjoyed reading Mr Kenneth Most's article entitled 'Can we afford not to use marginal costing?' (July 29th issue). Emphatically, the management of a business selling in competitive markets cannot afford to be ignorant of the additional information which can be obtained

through the use of marginal cost techniques. Gone are those comfortable times when the business man was able to sell all his production at selling prices based on full cost plus a generous margin of profit. Today the activities of supermarkets, discount houses, price-cutters, etc., make it essential to be fully informed on the vital relationship between volume, costs and profits. The accountant in commerce must be able to inform his management on the contribution margin for each product and the most favourable utilization of available facilities in order to achieve maximum contribution towards fixed costs and profits.

This information can be obtained without necessarily applying the principles of marginal costing in their entirety. The basic requirement is the separation of fixed and variable costs in order to know the contribution margins for each article sold. If, in the accounting statements, fixed costs are then split over the products on some basis which is acknowledged to be arbitrary, full cost can be obtained also. Perhaps full cost obtained in this way is not so 'accurate' as when fixed costs are charged to products at each stage of manufacture according to the best key in each case, but this kind of 'accuracy' is surely one of the biggest hoaxes of the century.

The introduction of marginal costing in a business which has hitherto known only full costs is a delicate operation and it may be preferable to maintain some form of full cost for certain purposes while making available the marginal contribution for each product, division, sales outlet, etc. This information is vital for many decisions which management must take. Mr Kenneth Most illustrated some of these decisions in his article, and I would like to mention investment decisions. A comparatively small investment to eliminate a bottleneck may result in substantial additional profits and in such a case a 'full cost' calculation of the profits resulting from the investment would indeed be misleading.

It is surely time that most of our costing textbooks were revised and we ceased to talk naively about 'accurate costs'.

Yours faithfully,
Vaud, Switzerland. N. H. GREEN.

A monthly feature designed to keep readers – whether in practice or in commerce – abreast of the latest developments in the field of office equipment.

New Office

Low-priced Electric Calculator

IN spite of its low price, the new *Contex 20* electric calculator has many features normally associated with more expensive machines. These include automatic decimal point indicator, motorized subtract and shift-key for division, individual digit indicator for fool-proof checking, automatic on/off motor switch linked to the motor bar, constant factor retention for repeat multiplication, and tens-transmission for short-cut multiplication.

With a simplified keyboard, it measures 10 inches by 8 inches by 4 inches and weighs 7 lb. The manufacturers claim that it is not only the cheapest, but also the fastest machine of its kind on the market.

A hand-operated model is available at an even lower price.

Prices: £61 19s electric and £35 hand-operated.

Office Machinery Ltd, Omal House, 169 Tottenham Court Road, London W1.

Copying Large Documents

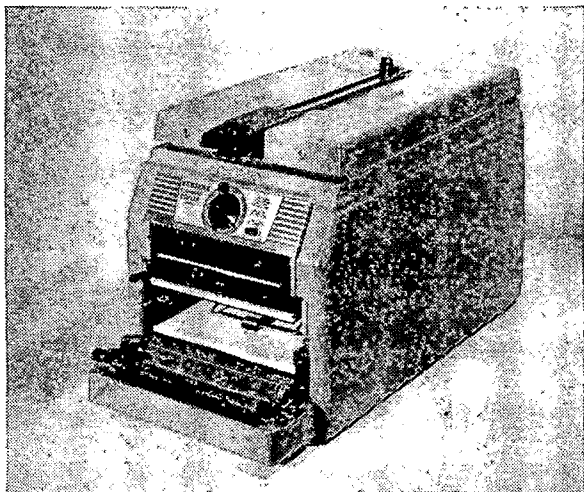
THE copying of large documents, such as legal drafts or schedules, often presents difficulties. In these circumstances, the latest addition to the Verifax range of photo-copiers will prove very useful. Known as the *Model 2A*, it produces copies up to 10 inches by 16 inches in area from originals of almost any size.

Five copies – dry, permanent and ready to use – can be produced in one minute; extra copies in a matter of seconds. The work is clean and silent and can be done under ordinary office lighting. Controls are so simple that junior staff can quickly learn how to use the equipment.

The manufacturers are now supplying Verifax matrix paper in 10 inches by 16 inches size and Verifax copy paper in 10 inches by 18 inches size.

Price £195.

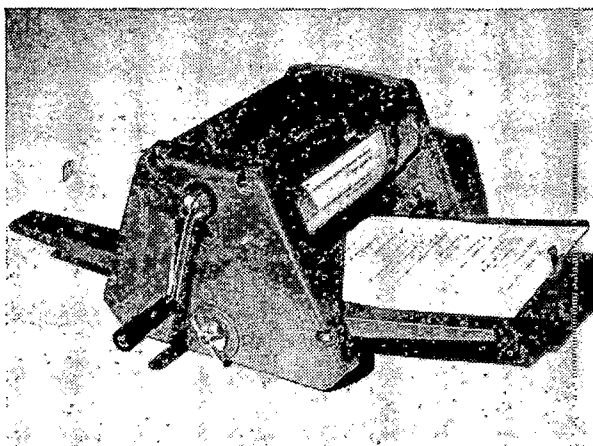
Kodak Ltd, Kingsway, London WC2.



'Verifax' Standard Copier, Model 2A

Dry-process Duplicator

NOBODY likes office machines that are either messy or hard to use. For this reason the *Merlin* rotary duplicator has much to commend it. Inks, spirits or chemicals are not required; the duplication process is achieved by chemical reaction in the special sensitized copy paper.



Merlin Duplicator

Since the *Merlin* can be used by inexpert staff, it enables short-run copying work – agendas, minutes, circulars, etc. – to be undertaken in a particularly convenient and economical way.

Another advantage is its portability – the total weight of the equipment is only 20 lb. Price £30.

Ellams Duplicator Co Ltd, Walton Road, Bushey Hall Road, Watford, Herts.

Protection for Executives

INTERRUPTIONS while dictating, telephoning or interviewing are always annoying and sometimes embarrassing. Professional men will appreciate the protection offered by a simple device called the *Receptionade*.

It consists of two small units, connected by electric cable. One stands on the executive's desk; the other is fixed outside his door.

The desk unit, made of plastic and measuring only 4 inches by 3½ inches by 1½ inches, has three coloured lamps – red for 'engaged', amber for 'wait' and green for 'enter'. Beneath each lamp is a press-button switch which illuminates the corresponding signal on the door unit.

In this way the flow of visitors can be controlled from the executive's chair.

The indicating unit can be mounted on a door lintel or nearby wall, or placed on a receptionist's desk. If the executive's office has two doors, two indicators can be controlled from one desk unit.

Installation consists simply of plugging a lead into the mains and connecting the units with the cable supplied. Each unit contains its own fuse and the

quipment

makers emphasize that there is no risk of shocks or fire. Lamps are easily replaced.

Price: £9 9s complete with mains transformer (built into the desk unit), 9 ft three-core mains lead, 30 ft inter-connecting cable and plugs.

Electronic Ades (London) Ltd, 6 Alpha Road, Teddington, Middlesex.

Easy-to-use Electric Adding Machine

THE keyboard of the *Everest-Plurima* electric adding/listing machine is unusually simple in design. The functional keys, reduced to a minimum number, are so closely grouped together that very little hand movement is needed.

Despite its simplicity the machine is versatile and fast. The number of digits entered through the keyboard is continuously visible in a small window. Reference numbers can be printed on the tally roll without interfering with the calculation in progress. A single key is used for both totalling and clearing errors. Totals and sub-totals print in red. Simple multiplication in whole numbers can be done by using a carry-over key.

The capacity of the sterling model is 1d short of £100 million or, when working in whole numbers, one short of one hundred million. As a precautionary measure, the '10' and '11' keys can make entries only in the pence column. Decimal models are also available.

All printed figures are continuously visible through the transparent paper guide. The tally roll is easy to remove and replace.

The machine measures 8 inches wide by 12 inches deep by 5 inches high, and weighs 15 lb. It is pleasantly finished in non-glare black and grey.

Price £72.

Office Mechanization Ltd, Ofrex House, Stephen Street, London W1.

Heavy-duty Document Shredder

IT is pleasant (if a little unusual) to come across a destructive operation which has profitable results. The main purpose of the *Fordigraph* heavy-duty paper shredding machine is the complete destruction of confidential records, but in doing so it produces useful packing material. This does not detract from the security of the operation; the documents are reduced to unreadable strips only a fraction of an inch in width.

Documents of all types and sizes are fed into the machine quickly and easily. After shredding, the strips fall into a detachable polythene bag.

The machine is powered by a 5/8 h.p. electric motor, and is controlled by a single lever. Its cutting knives are self-sharpening, and take in their stride such things as staples and pins. They are also beyond the reach of the operator's fingers – an important point where the machine is used by junior employees. If over-feeding causes a jam, the motor cuts out automatically.

Dimensions are 18 inches wide by 15 inches deep by 10 inches high; weight, 83½ lb. Despite its compactness, the machine shreds up to 600 lb. of paper per hour.

This means that when used for disposing of out-of-date general files it can quickly free a surprisingly large amount of valuable filing space.

Prices: £98 (with 1/16th inch cut) or £110 (with 1/32nd inch cut).

Office Mechanization Ltd, Ofrex House, Stephen Street, London W1.

Compact Electric Typewriter

FOR the first time a leading typewriter manufacturer has produced an all-electric machine which is only about half the weight and size of a standard model – at a price likely to attract firms which have previously dismissed the idea of electric typing as 'too expensive for us'.

The new machine is the *Smith-Corona '200'*. Despite its compactness, it has a carriage width of 12½ inches and a full typing line of 11 inches.

The reduction in bulk and weight has been achieved in two ways: first, by using a small but very powerful electric motor to operate the keys and carriage return mechanism, and, second, by making the moving parts of lightweight, non-magnetic materials. This method of construction not only reduces the work load but also eliminates resistance, due to the magnetic field set up by conventional metals.

The 'hollowed' keyboard is completely enclosed, which helps to keep the machine clean and also has a sound-proofing effect. All controls are close to the typing keys and are tilted-in to reduce finger travel.

In the standard model there is an automatic repeat action on the spacebar, underline, hyphen and 'x' cross-out keys, and according to the user's specification



Smith-Corona '200' Electric Typewriter

the same action can be fitted, without additional charge, to any or all of the eighty-eight keys.

The tabulation set-and-clear mechanism is of standard design. The '200' also incorporates the 'page gauge' and individual touch-selector fitted to all Smith-Corona machines. Standard typefaces are Pica and Elite, but a range of executive and other special typefaces can be supplied to order.

In appearance, the new model is extremely attractive. It has clean, modern lines and is finished in a spring green vinyl-based paint. Price: under £90.

Smith-Corona (Great Britain) Ltd, 248 Tottenham Court Road, London W1.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Limited, 151 Strand, London WC2

STATUTES (9 & 10 Eliz. 2)

Chapter 39: Criminal Justice Act, 1961

An Act to amend the law with respect to the powers of courts in respect of young offenders; to make further provision as to the treatment of prisoners and other persons committed to custody, including provision for their supervision after discharge, and the management of prisons, approved schools and other institutions; to re-enact with modifications and additions certain statutory provisions relating to the removal, return and supervision of prisoners within the British Islands; and for purposes connected with the matters aforesaid.

Price 3s net.

July 19th, 1961.

Chapter 40: Consumer Protection Act, 1961

An Act to make provision for the protection of consumers.

Price 9d net.

July 19th, 1961.

Chapter 41: Flood Prevention (Scotland) Act, 1961

An Act to enable the councils of counties and burghs in Scotland to take measures for the prevention or

mitigation of flooding of non-agricultural land in their areas; and for purposes connected with the matter aforesaid.

Price 1s net.

July 19th, 1961.

Chapter 42: Sheriffs' Pensions (Scotland) Act, 1961

An Act to amend the law with respect to the pensions attributable to the office of sheriff and salaried sheriff-substitute, to regulate the age of retirement from such offices, and to regulate the time at which payment may be made of those pensions and of the salaries attaching to the said offices.

Price 6d net.

July 19th, 1961.

STATUTORY INSTRUMENT

The Surcharge on Revenue Duties Order, 1961 (S.I. 1961 No. 1388)

This Order, which is made under Section 9 of the Finance Act, 1961, imposes a surcharge at the rate of 10 per cent on amounts in respect of Customs and Excise revenue duties and purchase tax which become due on or after July 26th, 1961.

Price 3d net.

July 26th, 1961.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS CHAS. LEIGH BROWN & SON, Chartered Accountants, announce that as from August 17th, 1961, they have removed their offices from 29 Waterloo Street, Glasgow, C2, to more modern premises on the sixth floor at Lion Chambers, 170 Hope Street, Glasgow. Telephone: Douglas 5891-2.

Following the death of Miss P. E. BRYAN, A.C.A., the practice formerly carried on by her under the firm name of BRYAN MANNAY & Co, at 36 Great Russell Street, London WC1, is now being carried on under the same name and at the same address by MESSRS N. N. PAMPEL, F.C.A., and R. J. BASKIN, A.C.A.

Mr D. A. PIZZHEY, A.C.A., announces that he has changed by deed poll his former surname of PIZZHEY and has adopted the surname of PALMER. He also announces that he has retired from the firm of C. HAINES WATTS & Co.

MESSRS D. F. BYRNE & Co, Chartered Accountants, of Kingston upon Thames, Surrey, announce the admission into partnership of Mr D. A. PALMER, A.C.A. The name of the firm is unchanged.

MESSRS TOY, CAMPBELL & Co, Chartered Accountants, of 10-13 Dominion Street, London EC2, announce

that Mr E. G. HAYES, A.C.A., who has for some years been a senior member of their staff, joined them in partnership on August 1st, 1961.

Appointments

Mr E. J. Aaronson, F.C.A., has been appointed general manager, overseas operations, of The General Electric Co Ltd, as from July 1st. He was previously economic and financial advisor (export).

Mr H. W. A. Waring, C.M.G., F.C.A., has been elected honorary treasurer of the Iron and Steel Institute in succession to Sir Julian Pode, F.C.A.

Mr D. A. Bussell, M.B.E., F.C.A., has been appointed an additional director of Broadweir & Southern Properties Ltd.

Mr P. N. Nicholas, A.C.A., secretary of Tecalemit Ltd, has been appointed to the board of Tecalemit (Engineering) Ltd, a wholly-owned subsidiary company of Tecalemit Ltd, and has also been appointed secretary of Tecalemit (Engineering) Ltd.

Mr A. D. Morris, C.A., has been appointed secretary of Forster's Glass Co Ltd, on the retirement of Mr Harold Moss after forty-eight years' service with the company. Mr Morris will combine his former position of chief accountant with that of secretary.

TAX RESERVE CERTIFICATES**Interest Rate Increased**

As from August 12th, Tax Reserve Certificates of the Ninth Series issued under the terms of the prospectus dated March 21st, 1961, will bear interest at the rate of $3\frac{1}{2}$ per cent per annum.

The rate of interest on certificates of the Ninth Series subscribed before August 12th, 1961, will remain unchanged.

The interest on Tax Reserve Certificates is free of tax. Grossed up at 7s 9d the new rate of interest represents an equivalent yield of £5 14s 3d per cent per annum.

PURCHASE TAX: SPECIAL SURCHARGE**Disclosure on Invoice**

Following numerous representations regarding paragraph 35 of Notice No. 320, the Commissioners of Customs and Excise have approved as an alternative procedure that where their officers are satisfied that it would be unreasonable to insist on a registered trader showing special surcharge separately on his invoices, and that no verification difficulties will arise, they may agree, on request, to the purchase tax and special surcharge being shown together as a single item, provided the invoices bear some clear indication that such is the case.

UNEMPLOYMENT INSURANCE AGREEMENT**Federal Republic of Germany and United Kingdom**

The reciprocal Unemployment Insurance Agreement which the United Kingdom concluded with the Federal Republic of Germany on April 20th, 1960, has been ratified and will come into force on September 1st, 1961.¹

The agreement covers unemployment benefit provided under the National Insurance Scheme and the corresponding scheme in the Federal Republic. It enables an insured person who becomes unemployed in one country and claims benefit there to count any contributions he has paid in the other country.

A separate agreement covering the other social security benefits of the two countries came into force on August 1st, 1961 (as announced in *The Accountant* of July 22nd last).

**INTERNATIONAL DICTIONARY FOR
COMPUTER USERS**

A six-language dictionary of terminology relating to the use of electronic computers is being prepared by European insurance organizations. It is hoped that the work, which will be available in the first half of 1962, will facilitate communication between the users of such equipment in Europe.

Sponsored by the Comité Européen des Assurances, the dictionary will be drawn up in English, French, German, Italian, Portuguese and Spanish. It will comprise in each language an encyclopaedic section and a dictionary: the encyclopaedic section will contain a series of articles clarifying the principal expressions relating to electronic computers while the dictionary will contain 1,040 expressions in alpha-

betical order with equivalent expressions in the five other languages.

The work will include terms connected with the use of computers in insurance as well as terms relating to the ancillary equipment for punched cards and tapes and the more important organizational terms. The price in the United Kingdom has not yet been fixed, but will be between £2 to £4. Copies may be ordered from Comité d'Action pour la Productivité dans l'Assurance, 17 Rue Lafayette, Paris 9ème.

THE PROFESSIONAL CLASSES AID COUNCIL

The fortieth annual report of the Professional Classes Aid Council for the year ended March 31st, 1961, records that the total available income for the year amounted to £29,242 compared with £24,217 in the preceding year. The total expenditure rose by £4,353 above last year's figure of £24,748 and comprised £21,243 for relief for all the several kinds mentioned in the report, £5,337 for administrative costs and £2,521 for other expenses including appeals and publicity.

Four hundred and seventy-one families received financial assistance during the year. In addition to general assistance given in cases of distress, grants were made for the education of children and training of students and for additional help in the cases of elderly and infirm people.

The Council is composed of representatives of nearly all the professional bodies and works in close association with their benevolent funds and other welfare institutions. The Institute of Chartered Accountants in England and Wales is represented on the Council by Mr J. A. Allen, F.C.A., and The Association of Certified and Corporate Accountants by Mr S. C. Jones, F.A.C.C.A. The address of the Council is 10 St Christopher Place, London W1.

THE INSTITUTE OF OFFICE MANAGEMENT**Grading and Merit-rating Conference**

'Grading and merit-rating for the office' will be the subject of a one-day conference organized by The Institute of Office Management, to be held at *The Kensington Palace Hotel*, London W8 on September 5th.

The aim of the conference is to show how various undertakings have achieved objectives through the Institute's organization and methods job-grading and merit-rating scheme. Subjects will include 'Job evaluation and merit-rating in the office', by Dr A. S. Roy, group personnel officer, British Oxygen Co Ltd; 'Introduction to the I.O.M. Scheme', by Mr T. R. Thompson, director, Leo Computers Ltd; and 'Experience of the I.O.M. scheme in three companies', by Mr D. H. Wood, group personnel manager, The Crown Co Ltd.

Further details regarding the conference may be obtained from the Secretary, The Institute of Office Management, 56 Victoria Street, London SW1.

GOLF

In a match played on August 10th at the Childwall Golf Club, the Liverpool Chartered Accountant Students' Association beat the Liverpool Society of Chartered Accountants by two matches to nil with two halved.

¹The National Insurance (Germany) Order, 1961 (S.I. 1961 No. 1513). H.M.S.O., 6d.

CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The Chartered Accountants' Golfing Society played its annual match against the London Chartered Accountant Students' Golfing Society at the Berkshire Golf Club on July 18th. The weather was perfect and the course in excellent condition.

The teams consisted of ten a side, singles being played on the Red course in the morning and four-somes on the Blue course after lunch. The Chartered Accountants' Golfing Society were the winners by ten matches to five.

Mr J. B. Pittman, F.C.A., the President of both Societies, has presented a most attractive silver salver known as The 'Pittman' Challenge Plate to be competed for annually, and he presented it at the close of the match to the winners.

Results (chartered accountants' names first):

MORNING

D. L. Shaw lost to T. Davies, 5 and 4.
J. M. Kaye beat W. Mobberley, 3 and 2.
W. O. Newcomb beat I. Scade, 2 and 1.
S. G. Sillem lost to R. White, 4 and 3.
W. B. Henderson beat R. Borneman, 5 and 4.
H. C. Staines beat T. Webb, 4 and 3.
R. G. Drummond beat W. Caldwell, 2 up.
D. W. Gibson beat I. Richards, 5 and 3.
D. G. Richards beat T. Ross, 3 and 1.
C. I. Steen beat L. Nahon, 4 and 3.

AFTERNOON

Kaye and Staines lost to Davies and Mobberley, 5 and 4.
Shaw and Gibson lost to Scade and P. Adcock, 2 down.
Newcomb and Sillem beat White and Borneman, 3 and 2.
Henderson and Richards beat Webb and Caldwell, 5 and 4.
Drummond and Steen lost to Richards and Ross, 2 and 1.

SOUTH EASTERN STUDENTS' RESIDENTIAL COURSES

The South Eastern Society of Chartered Accountants will hold its twelfth annual students' residential tuition course in Brighton from September 25th to 29th (Intermediate students) and October 2nd to 6th (Final students).

Lectures will be given by tutors from the accountancy correspondence schools, and the programmes include evening buffet meetings and dinners. Arrangements for hotel accommodation can be made if desired and there will be a grant towards the cost of accommodation and travelling expenses. The fee for each course is £4 5s.

All students, whether or not within the area of the South Eastern Society, wishing to attend should apply as soon as possible for registration forms and further particulars to Mr T. T. Nash, F.C.A., 33 Lawrence Road, Hove, Sussex.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 21ST, 1886

A Weekly Note

A correspondent of a contemporary has put forward a proposal by which it would be possible to transmit money by wire. The idea apparently is that if A. wishes to send B. in another town a certain sum he should simply telegraph to him to that effect, handing the money at the same time to the Postmaster by whom the message would be dispatched. The Postmaster at the other end would know that his colleague before dispatching the message would have secured himself by the receipt of the money. The Postmaster who would deliver the telegram would accordingly have no hesitation in paying the money to the recipient of the telegram on application, taking a proper receipt for the money. It is considered that details might easily be arranged working out the idea successfully. In Australia the plan is already in operation, and is understood to be appreciated. Whether in view of the banking facilities which already exist in this country the idea would make any progress, or supply a real want, is a question. We believe that in England, before the Government took over the private companies, money could be transmitted by wire in the way now suggested.

MANCHESTER STUDENTS' RESIDENTIAL COURSE

The Joint Tuition Committee of the Manchester Society of Chartered Accountants and the Manchester Chartered Accountants' Students' Society has arranged to hold a third residential revision course for students at Lyme Hall, near Stockport, from September 18th to 22nd.

The course is intended to assist students in their pre-examination revision and for this reason priority will be given to candidates in the Institute's examinations to be held in November 1961. Priority will also be given to students who live too far away from Manchester and Preston to attend Saturday morning lectures. Remaining places will be allotted by ballot and although a ballot was not necessary at the previous two courses, the growing popularity of the course makes it unlikely that there will be places available for late applicants.

A separate series of lectures will be given for Intermediate and Final candidates. Further particulars are obtainable from the honorary secretary, 46 Fountain Street, Manchester, 2.

ROYAL EXCHANGE
ASSURANCE : INCORPORATED A.D. 1720

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Results of Examinations held in May 1961

FINAL EXAMINATION

Held on May 30th, 31st, June 1st and 2nd.

Certificates of Merit and Prizes Awarded

First Certificate of Merit, the Institute Prize and the W. B. Peat Medal and Prize
Williams, David John (C. G. Jolliffe), Newport, Mon

Second Certificate of Merit, the Walter Knox Scholarship and the Plender Prize for the paper on Advanced Accounting (Part I)
Bird, Peter Ashby (J. P. C. Richardson), London

Third Certificate of Merit and the Plender Prizes for the papers on English Law (Part I) (equal with one other), English Law (Part II) and General Financial Knowledge, Cost and Management Accounting
May, Robert Aron (M. E. G. Prince), London

Fourth Certificate of Merit
Davies, David Peter Lloyd (R. H. Martin), Cardiff

Fifth Certificate of Merit
Flower, John Francis (G. Flower), London

Sixth Certificate of Merit
Dickerson, Peter James (R. T. Walters), London

Seventh Certificate of Merit and the Plender Prize for the paper on English Law (Part I) (equal with one other)
Cobley, Garry John (A. G. J. Horton-Stephens), Brighton

Eighth Certificate of Merit
Keat, Anthony George Joseph (D. A. Huggons), London

Ninth Certificate of Merit, the Frederick Whinney Prize and the Plender Prize for the paper on Advanced Accounting (Part II)
Caffyn, Robert James Morris (G. E. Morrish), London

Ninth Certificate of Merit
Henstock, Barry Anthony (J. M. Farraday), Bury
Richardson, John (V. F. Brown), London

Twelfth Certificate of Merit
Saunders, Kenneth William John (J. F. Wreford), London

Thirteenth Certificate of Merit
Rose, John William (L. H. Mitchell), London

Full List of Names of Successful Candidates

(In alphabetical order)

(The name shown in brackets is the name of the principal to whom the clerk has been articulated. Where the name of the principal is not given the candidate is a former bye-law candidate of the Society continuing his qualifying service not under articles.)

Abbott, D. V. (J. M. Dinwoodie), Newbury	Baber, M. T. W. (P. F. Rendell), Bristol
Abrahams, P. (E. D. Jehring), London	Bach, G. D. B. (D. G. W. Ballard), London
Adams, A. B. (P. G. S. Kiely), Reading	Bailey, A. A. (F. B. Peach), Wolverhampton
Adams, J. G. (H. E. Hann), London	Baird, H. (J. F. Tyson), Morecambe
Adams, P. R. (A. W. Bentley), London	Baldwin, A. W. W. (R. H. Ashcroft), London
Adewakun, M. (J. Morris), Manchester	Ballantyne, I. S. (J. H. Sisson), London
Adey, A. J. (R. W. Covington), London	Ballantyne, R. Y. (N. Rutter), Liverpool
Ah-Chuen, D. (P. H. Smith), London	Barber, L. J. (M. E. Askwith), London
Aiken, D. L. (M. W. Jones), Manchester	Barnes, J. H. (E. J. M. Clarke), London
Ainley, D. H. (R. S. Glendinning), Bradford	Barnett, M. (S. Cohen), London
Alabi, A. B., London	Barnett, R. M. (A. M. Fisher), London
Alam, K. M. R. (E. M. Ormrod), Liverpool	Barrell, M. A. C. (J. W. Margetts), London
Allan, J. B. (F. V. Denton), Liverpool	Barrell, M. L. (Miss), (G. A. H. Oliver), Abergavenny
Allen, H. M. C. (J. A. Edwards), Manchester	Barwick, D. J. (W. E. Ridsdale), London
Amorin, J. N. E. (J. Robinson), Newcastle upon Tyne	Basuroy, S. (F. S. Worms), London
Anderson, P. P. (A. G. Ray), Nottingham	Batchelor, J. E. (E. E. Hallam), London
Applebee, J. W. (G. A. Morgan), Swansea	Bates, P. (J. L. Hughes), Liverpool
Armitage, M. J. (F. C. S. London), London	Batty, C. J. (R. F. Gibson), Launceston
Arora, S. C. (A. Feldman), London	Batty, J. M. (K. W. S. Clark), London
Ashton, S. C. (C. L. Woolveridge), London	Bean, C. F. P. (Miss), (D. W. Carter), Kingston upon Thames
Ashworth, G. E. (J. M. Farraday), Bury	Beavis, J. R. S. (J. Birkett), Bristol
Atiase, G. K. (L. F. Terry), Brighton	Beazley, H. J. S. (E. B. Palmer), London
Atkinson, G. R. (S. M. Kirkman), Ripon	Bedford, T. A. J. (T. Bedford), Leeds
Ayew, J. K. (W. B. H. Vidgeon), Worthing	Bell, J. G. (R. S. Alexander), Nairobi

* See also Certificate of Merit above.

- Bell, N. A. C. (A. Piper), Chichester
 Benford, P. T. (G. R. Porter), London
 Benson, N. W. (W. R. Pugsley), London
 Bentil, M. B. K. (D. Jacobs), London
 Berger, H. (F. S. Young), London
 Berman, J. H. (L. Goldwyn), London
 Bhasin, C. P. (W. F. C. Marwood), London
 Bingham, D. E. (G. R. Turner), Bradford
 *Bird, P. A. (J. P. C. Richardson), London
 Birley, J. K. (L. Ogden), London
 Birmingham, M. E. (G. A. J. Morris), London
 Bishop, D. K. (R. H. Cromarty), Nottingham
 Bishop, G. (L. M. G. Harris), London
 Blackah, J. H. (J. Jackson), Leeds
 Blackwell, M. (G. R. Simons), Rotherham
 Blakeney, J. S. (K. G. Winward), Watford
 Blunt, P. R. (R. C. Blunt), London
 Boldero, M. H. A. (H. J. Impey), Thame
 Bolton, M. J. (P. D. Rabjohns), Worcester
 Booth, G. E. (E. R. White), South Shields
 Booth, R. J. (J. Capey), Stoke-on-Trent
 Boss, J. F. (W. Yarwood), Harrow
 Boulding, J. E. (R. H. More), London
 Boulton, B. C. (C. A. Bartlett), London
 Boyd, L. R. (W. D. Corkish), Liverpool
 Bradbury, G. L. (J. B. Martin), Liverpool
 Brading, L. W. (D. J. Kean), London
 Bradley, P. (W. W. Atkinson), Newcastle upon Tyne
 Braman, G. J. (W. A. Richardson), Nottingham
 Branchdale, H. G. (R. Kettle), London
 Brandwood, J. N. (J. B. Martin), Liverpool
 Bratherton, R. (F. Cook), Liverpool
 Brett, M. J. (K. Wilson), London
 Bridel, R. A. H. (H. G. Broughton), Guernsey
 Briggs, R. G. (K. G. Warriner), Leeds
 Bright, C. J. (A. W. Howitt), London
 Bright, D. N. (H. T. Wickham), Falmouth
 Brockington, C. (J. A. Heacock), Birmingham
 Brockington, R. B. (B. D. Scott), Birmingham
 Brooker, A. W., Wolverhampton
 Brown, A. C. L. (W. E. Fitzhugh), London
 Brown, B. W. (B. J. M. Boys), London
 Brown, D. D. (W. A. Styler), Stratford-on-Avon
 Brown, L. (J. S. Darwell), Blackpool
 Bruschi, P. J. (P. B. MacHugh), London
 Buck, J. F. (W. F. Page), King's Lynn
 Buckley, C. N. (H. S. Widgey), Hereford
 Buckman, P. E. (E. F. Trew), London
 Bullivant, T. W. (L. G. Davies), Liverpool
 Burney, J. M. (R. A. Palmer), Northampton
 Burrowes, C. J. (P. H. Plews), London
 Burton, G. (C. Pearson), Liverpool
 Butterworth, T. (N. J. Williams), Warrington
 Byrne, M. F. (N. L. R. Trounce), Manchester
- *Caffyn, R. J. M. (G. E. Morrish), London
 Cameron, E. M. (Miss), (B. I. Rainey), London
 Canfield, G. T. (J. W. Alington), Chelmsford
 Carbutt, F. (G. F. R. Baguley), London
 Carter, D. A. (C. N. Baker), London
 Cattley, F. D. G. (J. W. Pickard), London
 Caulfield-Giles, M. (J. W. Williams), Cardiff
 Chandler, L. G. (L. Jackson), London
 Chapman, R. J. (J. P. C. Richardson), London
 Chiesman, D. W. R. (H. A. Astbury), London
 Christopher, C. M. (R. G. Walker), London
 Chubb, G. B. (H. G. P. Lewis), Southsea
 Chung, Y. T. (W. B. S. Walker), London
 Clark, L. (J. Goodman), Liverpool
 Clayton, E. H. (R. H. Wood), Bradford
 Clemenson, D. J. W. J. (K. W. Kyle), Southend-on-Sea
 Cobb, T. R., Leeds
 *Cobley, G. J. (A. G. J. Horton-Stephens), Brighton
 Cocker, R. A. (L. J. W. Gould), London
 Coker, P. (J. P. Vallance), London
 Coleman, M. J. (R. Newstone), London
 Coleman, S. A. (Miss), (J. D. Shepard), London
 Collins, B. (N. H. Pattison), Newcastle upon Tyne
 Coombs, L. B. (G. T. Schofield), London
 Cooper, P. A. (J. D. French), Liverpool
 Cooper, R. M. (J. V. F. Crowther), London
 Corme, D. H. (E. F. Crossley), Manchester
 Corrin, J. R. (J. C. Davies), Wrexham
 Costain, P. J. (W. B. S. Walker), London
 Coward, J. M. (C. R. Osborn), London
- Coward, R. E. (E. R. Nicholson), London
 Cowlshaw, A. R. (L. Shaw), Manchester
 Cox, E. J. M. (J. R. Paramoor), London
 Creswell, S. H. (F. G. Mellersh), London
 Crookes, J. B. (C. H. Cockerill), Sheffield
 Cropp, H. R. (A. P. Humphries), London
 Crosby, N. T. (W. L. Gallant), Leeds
 Cross, W. J. (formerly with A. M. Stray, deceased), London
 Crossie, P. L. H. (J. H. Sisson), London
 Croston, P. (J. Moore), Southport
 Croudson, R. (W. Denham), Leeds
 Culverwell, P. J. H. (G. R. Mackay), London
 Cumming, N. T. (S. V. P. Cornwell), Bristol
 Cunningham, W. (F. S. Smith), London
 Curtis, S. (A. S. John), Pontypridd
- Dare, B. S. (G. B. Bunker), London
 Davidson, T. J. (E. B. Orr), London
 Davies, B. G. (W. V. Meacock), Newport, Mon
 Davies, D. A. (N. T. Cox), London
 *Davies, D. P. L. (R. H. Martin), Cardiff
 Davies, M. (H. Tuckey), Birmingham
 Davies, R. R. (C. R. Watson), Dorking
 Davis, D. (S. Cohen), London
 Dawson, D. H. M. (W. E. Beddington), Derby
 D'Cruz, T. R. (N. N. Pampel), London
 Deacon, M. A. J. (F. T. Snow), London
 Deeks, D. J. A. (P. Pratt), Hastings
 Deller, B. W. (J. V. Morris), London
 Denchfield, M. D. (L. D. Morse), London
 Desai, K. G. (E. A. Charles), London
 Dicey, C. R. (S. S. Primost), London
 Dicker, S. S. (N. A. Cohen), London
 *Dickerson, P. J. (R. T. Walters), London
 Dillon, T. J. (A. W. White), London
 Dingle, L. R. (B. W. Vincent), London
 Dixon, A. W. (J. W. Glass), Liverpool
 Dodge, G. B. (D. G. Truscott), London
 Donhue, D. S. (T. H. Griffith), Slough
 Doram, J. E. (D. E. Wood), Walsall
 Douglas, P. (B. Green), Fleetwood
 Downey, W. J. (H. A. Benson), London
 Downs, B. (E. Chapman), Blackpool
 Drake, K. J. (P. R. Hart), London
 Drapkin, A. (G. Magnay), Newcastle upon Tyne
 Dry, G., Hull
 Dunkley, D. M. (H. J. Robinson), London
 Dunn, J. E. S. (F. L. Moulding), Sheffield
- Eastmond, D. G. (F. W. Charles), London
 Easton, P. A. (F. R. Strover), London
 Edelman, J. (N. Tropp), London
 Edwards, A. C. (J. Taylor), Manchester
 Edwards, I. C. (G. M. Metcalf), Cardiff
 El-Bahrani, I-D. S. (W. G. James), Cardiff
 Elles-Hill, M. P. (S. W. C. Sprunt), London
 Ellis, A. J. (A. Marshall), Mansfield
 Elphick, J. B. (D. M. Finlayson), Liverpool
 Elwood, M. E. (H. Battye), Sheffield
 Emanuel, P. M. (H. S. Rose), London
 Emery, J. R. (J. Wise), London
 Evans, H. J. (I. Griffiths), Cardiff
 Evans, M. R. (H. W. Andrews), Manchester
 Evans, P. G. (P. Ewen), London
 Evans, W. A., London
 Everitt, D. T. (B. C. Godfrey), Luton
- Falk, H. R. (B. Halpern), Manchester
 Farrow, F. C. (R. C. Copeman), Hull
 Fern, E. A. (A. H. Smalley), Coventry
 Fernando, C. F. (J. Berks), London
 Field, J. R. (R. S. Yates), London
 Field, P. J. (A. T. How), London
 Fielden, D. S. (P. H. Palmer), Nottingham
 Fielden, M. (C. L. Fielden), Colchester
 Fielder, W. H. (C. B. Fytche), London
 Fish, P. J. (E. C. Turner), Birmingham
 Fisher, R. E. J. (C. U. Peat), London
 Flatto, K. A. (N. C. R. Nash), London
 Fletcher, J. R. (R. W. Cooke), Sutton Coldfield
 *Flower, J. F. (G. Flower), London
 Flowers, J. (L. Hickson), Hull
 Ford, L. J., Lincoln
 Franklin, L. G. (R. Fawcett), London

* See also Certificate of Merit above.

Freeman, J. A. (F. Pragnall), Nottingham
Fung, S. L. (C. A. Pocock), London
Furness, A. J. (E. R. Nicholson), London

Galletti di Cadilhac, A. D. (C. G. Hayes), London
Game, R. (R. J. Armstrong), Hitchin
Garside, P. F. (R. S. Gordon), Manchester
Gay, B. (J. E. B. Barron), Winchester
Germain, R. M. C. (N. Gledhill), Winchester
Gerrard, L. J. (R. A. C. Mordant), London
Ghuri, A. M. (E. Watkinson), Wigan
Ghosh, S. M., Manchester
Gilbert, J. F. (P. T. G. Snuggs), Bournemouth
Gill, E. J. (S. E. Boler), Sheffield
Gill, J. (V. A. Bell), Manchester
Glasscock, B. S. (T. H. Pawley), London
Glazer, D. (F. E. Ellis), London
Gloucester-Trotman, R. J. (W. H. Wright), London
Goldberg, H. (S. Berg), Southend-on-Sea
Goldthorpe, K. A. (J. Barrett), Leeds
Goodey, B. M. (W. H. Worth), Leicester
Goodman, K. (A. L. Morell), Nottingham
Goodsir, G. S. (E. L. Pargeter), London
Gordon, R. M. (J. P. Burnett), Southampton
Gordon, V. (A. F. Pownall), Liverpool
Gowanlock, J. R. (W. R. Johnson), Manchester
Graham, A. J. M. (D. W. Robertson), London
Granger, C. F. K. (P. F. Granger), Nottingham
Grant, R. (R. M. Lang), London
Graves, T. H. (N. B. Danbury), London
Gray, S. T. (W. E. Emms), London
Green, V. M. (W. Sowman), Leicester
Greenwood, A. G. (J. B. Ross), Halifax
Gregory, E. M. (Miss), (C. G. Heselton), Scarborough
Griffiths, D. C. (K. B. Jefferies), Cardiff
Grossick, I. R. (H. Lawton), Manchester
Grundy, H. F. (R. K. Green), Manchester

Hackett, J. C. (A. R. Merrick), Kidderminster
Hainsworth, P. (B. C. Stead), Leeds
Hall, J. P. (F. Booth), Cheadle
Harcourt Williams, M. F. (M. S. Barker), London
Harriman, R. (S. R. M. Hatson), Hinckley
Harris, D. K. (A. A. Davis), London
Harrison, M. A. B. (J. Harrison), London
Hartley, J. P. (T. M. Threlfall), Nelson
Hassan, M. A. (J. H. Davidson), Leeds
Haycock, L. C. (J. L. Mawhood), London
Hayward, J. A. I. (F. G. Nicholas), Stoke-on-Trent
Hearn, M. E. (D. F. L. Cooke), London
Heller, M. A. (W. G. Medlam), London
Hellewell, D. S. (T. B. Murtland), Leeds
Henderson, M. J. G. (C. R. K. Mace), London
*Henstock, B. A. (J. M. Farraday), Bury
Hewett, M. A. E. (R. F. Haylar), London
Heywood, M. W. (D. B. Whittingham), Shrewsbury
Hibbs, D. L. (G. H. Camamile), Lincoln
Hickling, J. V. (S. Price), Bishop's Stortford
Hignett, J. M. (A. D. Wardle), London
Hilaluddin, S. (F. R. Hopkins), London
Hill, D. (V. H. Collinge), Bacup
Hill, J. B. (W. S. Burgess), Plymouth
Hill, R. H. (S. E. Clark), Oxford
Hill-Cottingham, B. E. (S. J. Chubb), London
Hills, A. J. (B. W. Sutherland), Birmingham
Hinton, J. G. (O. Couse), Birmingham
Hitchins, W. D. W. (E. H. McGregor), Reading
Hoare, P. J. (H. C. Green), London
Hobbs, W. J. (C. J. Holliday), Stroud
Hodgkinson, B. J. (G. C. F. Shackleford), London
Hodson, P. J. L. (J. Holland), Manchester
Holden, G. O. (G. R. Watson), Birmingham
Holden, J. B. (F. R. Paine), London
Hollings, P. R. (C. H. Pomfret), Liverpool
Holt, R. D. (F. W. Chapman), Nottingham
Holwell, P. (J. P. C. Richardson), London
Hooper, J. C. M. (E. F. G. Nettleton), Bradford
Hopewell, L. C. (W. W. Ward), London
Horton, D. (M. E. Askwith), London
Howe, D. P. L. (N. G. Bascombe), Bristol
Howell, O. M. R. (R. Ballantine), London
Howkins, G. C. S. (M. S. Barker), London
Howlett, J. C. (G. B. Pearson), London
Hudson, I. W. (C. S. Forsyth), London

Hughes, A. D. B. (D. B. Dawes), Manchester
Hughes, E. G. (F. Everett), London
Hughes, R. E. (G. L. Williams), Rhyl
Humphry, B. G. (E. C. Graham), London
Hunter, R. (R. Hunter), London
Hussain, S. R. (A. Jacob), London
Hustwick, J. C. (J. C. Boyce), Bradford
Hutchins, C. G. (G. H. Down), Swansea

Irons, R. J. M. (A. G. Cheston), London
Isherwood, A. V. de P. (T. M. Carmichael), London

Jackson, A. D. (C. E. Akeroyd), Nottingham
Jackson, P. N. (H. E. C. Andrew), Leamington Spa
James, A. (F. W. Bailey), Leeds
James, P. S. (W. V. Meacock), Newport, Mon
Jamieson, N. (H. F. Inkpen), Twickenham
Jenvey, D. R. (R. W. Covington), London
Jeremy, J. D. S. (W. S. Hood-Williams), Swansea
Jevons, H. (I. H. M. Robinson), Leeds
Joannou, V. (S. J. Birkett), London
Johnston, G. G. F. (J. H. Mitchener), Southampton
Jolley, J. D. (A. J. Gray), Sunderland
Jones, D. C. S. (S. C. Mallett), Birmingham
Jones, D. G. (P. E. Wallis), Liverpool
Jones, G. M. (W. H. Jones), Swansea
Jones, K. A. (C. R. Daniel), Cardiff
Jones, L. G. (N. D. B. Robinson), Manchester
Jones, P. W. (J. R. Head), Coventry
Jooma, A. (F. R. Hews), Worthing
Jose, M. A. (G. L. Aspell), Leicester

Kamal, A. (M. A. Citröen), London
Kay, D. G. F. (M. C. Holt), London
Kay, T. N. (L. Rank), York
Kaye, E. S. (G. C. Henry), London
*Keat, A. G. J. (D. A. Huggons), London
Keefe, D. G. (K. I. Morgan), Swansea
Kelley, P. D. (W. L. Barrows), Birmingham
Kemsley, K. J. Z. (D. Clayton), London
Kensett, J. R., Brighton
Kensington, J. A. I. St. V. (D. C. Hobson), London
Kent, D. J. (B. S. Kent), Shrewsbury
Kerrich, J. A. A. (H. J. Binder), London
Keyes, R. E. (K. G. Sim), Newport, Mon
Keymer, K. D. (R. Plummer), London
Khoo, M.-Y. (Miss), (G. H. Michaels), London
Kidwai, I. Z. (D. G. T. Crabbe), Birmingham
Kilvert, K. (G. E. Sawtell), Stourbridge
King, C. P. (D. Neal), Birmingham
Kinsella, J. (K. P. Ney), London
Kirkbright, D. (T. Bedford), Leeds
Kirkham, W. W. (W. Kirkham), Sheffield
Knight, D. M. (L. C. Winterton), London
Knowles, T. (A. H. Crumpton), Hull
Krusin, P. H. (J. F. T. Nangle), London

Lassman, M. A. (W. R. Malvern), London
Latchford, J. F. (B. O'D. Manning), London
Latham, P. J. B. (R. F. C. Ingram), London
Lawrence, G. C. (A. S. Masters), London
Lawrence, P. J. (I. Sassoon), London
Learmont, J. M. (M. H. Leese), Manchester
Lee, H. P. (H. Marriner), Leeds
Leech, E. (P. Nuttall), Manchester
Lees, J. R. M. (J. P. Clayton), London
Lees, M. C. (W. E. Ridsdale), London
Lester, M. (P. D. McDermott), London
Lever, T. J., London
Lewis, D. J. (G. L. Eccleshall), London
Lewis, J. (J. B. Brierley), Oldham
Lewis, P. (Miss), (A. H. Marsden), Bristol. (*The Plender Prize for the paper on Taxation (equal with one other)*)
Liddiard, G. (H. O. Barnsley), London
Littlewood, R. D. (K. H. Littlewood), Sheffield
Liyanagama, R. (A. G. Mortimer), London
Lock, S. J. (W. McD. Morison), London
Lodge, R. S. (D. Pearson), Leeds
Loizou, G. A. (C. T. Auerbach), London
Longe, R. F. H. (G. H. Barnard), London
Lonsdale, R. D. (L. W. Crowther), Bolton
Loveless, B. C., London
Lowe, C. N. (W. B. Douthwaite), Sheffield
Lowe, D. J. (W. A. Lowe), Liverpool

* See also Certificate of Merit above.

Lowe, R. C. (C. F. Eilbeck), Liverpool
Luckman, J. W. (T. H. Webb), Coventry
Lulham, J. R. F. (C. H. Maggs), Bristol
Luscombe, D. J., London

McBain, D. (A. Johnson), Liverpool
McCarthy, C. M. (J. P. C. Richardson), London
MacGillivray, A. J. (G. F. Huff), London
McHarg, A. J. (Miss), (D. L. Jones), Newport, Mon
McIver, D. K. F. (B. E. Pearcy), London
McKay, C. T. (D. B. Hirshfield), London
McKelvie, D. M. (F. N. Phipps), London
McKenzie, G. D. (G. F. K. Morgan), Cardiff
Mackenzie, H. J. (M. R. G. Cory Wright), London
Macpherson, M. J. (B. W. Brixey), London
Madigan, A. W. (F. H. Taylor), London
Maher, T. (formerly with W. J. Cutlack, deceased), London
Malik, F. K. (M. Striker), London
Malnick, R. S. (D. J. Kean), London
Manford, J. (J. L. Knight), Oswestry
Manners, N., London
Martin, K. R. (C. E. Polak), London
Maskall, M. E. (B. W. Cutter), London
Mason, C. M. (E. N. Macdonald), Liverpool
Mason, D. W. (A. Piper), Chichester
Maule, E. E. (G. G. G. Goulty), Ipswich. (*The Plender Prize for the paper on Taxation (equal with one other)*)

*May, R. A. (M. E. G. Prince), London
Meek, B. S. (D. G. Bendall), London
Mehta, A. S. (J. J. Lopian), Manchester
Mephram, B. W. (M. F. Hudson), London
Meyer, P. J. H. (I. Griffiths), Cardiff
Middelton, D. G. S. (A. C. Dixon), Sunderland
Miles, D. W. (C. E. Lester), Tunbridge Wells
Miller, A. J. (L. D. King), Luton
Miller, K. W. (D. W. Kilsby), London
Miller, T. P. (F. Goldstein), London
Mills, R. B. (R. W. Minns), Birmingham
Milne, J. D., Leeds
Mitchell, C. B. (H. W. Burrell), Liverpool
Mitchell, D. R. W. (R. Mitchell), Preston
Mittias, A. (P. P. Parker), London
Mizen, P. (R. Francis), London
Moate, K. A., London
Mohammad, S. (J. F. Glenister), London
Moir, L. G. S. (W. J. N. Sherratt), Chester
Molyneux-Berry, D. B. (P. J. L. Case), London
Moorby, T. J. (F. Steward), Ipswich
Moore, D. (W. R. Carter), Manchester
Moore, G. G. (W. B. S. Walker), London
Moore, J. E. (J. D. Barber), Sheffield
Moorhouse, P. (J. C. F. Bolton), Manchester
Morgan, B. J. (A. G. B. Drabble), London
Morgan, C. E. (C. E. M. Hardie), London
Morgan, D. C. (R. M. Peat), London
Morgan, M. S. E., London
Morris, A. J., London
Morris, M. (G. Phillips), London
Morris, M. J. (J. L. Lichman), London
Morris, P. C. (G. Talfourd-Cook), Reading
Morton, C. S. (J. W. Boothman), Blackburn
Morton, M. (E. L. Langton), London
Moss, C. (P. J. Garland), Birmingham
Mowat, R. W. (K. C. Cook), Liverpool
Mullett, C. C. (P. F. Friend-James), Brighton
Murray, A. (D. B. Dawes), Manchester
Murray, B. A. (G. H. Cann), London
Murray, J. R. (G. E. Jones), London
Muse, M. J. (K. H. Gibbons), Bristol
Myddelton, D. R. (J. E. MacSwiney), London

Neale, B. G. (D. P. Giuseppi), Oakham
Neill, D. M. K. (Miss), (F. Winn), London
Neill, J. W. (E. W. G. Joicey-Cecil), London
Newberry, J. F. (R. H. Passmore), Torquay
Nicholson, F. E. E. (R. W. Lambeth), Cheltenham
Nightingale, J. F., London
Nunn, C. J. (W. H. Land), London

O'Brien, J. F. (H. W. Pople), Liverpool
O'Donoghue, R. C. (E. G. Tilley), London
O'Mahony, J. I. (W. H. Minter), Brighton
Ong, E. K. (P. A. Cohen), London
Oram, G. R. (N. B. Hart), Brigg
Ostler, J. R. (F. R. Paine), London

Owen, J. N. (G. R. Porter), London
Oyeleke, Y. A., London

Packer, J. N. L. (W. G. Wilson), Liverpool
Parry, G. A. (S. Woodyer), Liverpool
Partington, J. D. (B. Davis), London
Peacock, G. R. (C. B. Fytche), London
Peacock, R. (C. A. P. Snow), Darlington
Peat, T. C. (C. E. Surman), London
Peattie, D. M. (J. D. Clark), London
Percival, A. L. (H. Percival), Manchester
Perry, R. S. W. (L. F. Durman), London
Philpott, M. (N. V. Redfern), Gillingham, Kent
Phipps, T. N. (F. J. Fish), London
Pickard, J. A. (D. T. Veale), Leeds
Pikulski, J. (F. S. Bray), London
Pilgrim, J. B. N. (E. Holehouse), Nottingham
Pilling, C. D. (W. C. Read), Dudley
Pink, L. M. (P. G. Wenham), London
Platts, K. G. (C. G. Larking), Maidstone
Plumb, J. E. (E. Buxton), Stoke-on-Trent
Pocock, P. B. (H. N. Raine), Hull
Pollard, F. S. M. (H. Parsonage), Chester
Pollard, M. (C. Metliss), London
Poon, S. L. (C. V. Harvey), London
Porritt, J. D. (J. B. Hustwick), Bradford
Porteous, D. (G. D. Shepherd), Carlisle
Potter, J. A. (H. G. Lawrance), London
Potter, V. K. (A. A. Bradshaw), London
Povey, J. W. (S. Varey), Reading
Prescott, C. R. (R. G. Tilley), London
Preston, W. B. (N. Davies), London
Price, K. E. (J. R. Riddell, Junr.), Shrewsbury
Proctor, D. R. (W. B. Gowers), Sheffield
Purcell, D. L. P. (E. T. Peckham), London

Race, E. (C. A. Robinson), Uxbridge
Radley, H. M. (R. J. Blincow), London
Raha, S. N. (S. J. Melbourne), London
Rainford, K. G. (A. F. Clarke), Liverpool
Rajani, P. M. (J. Sugarmar), London
Rands, P. G. G. (G. A. J. Morris), London
Rankin, B. K. (J. D. French), Liverpool
Ranwell, M. E. (C. Couchman), London
Rata, D. H. K. (T. C. Y. Hughes), London
Ray, M. (C. Pegg), London
Read, R. M. H. (C. H. March), Cardiff
Reay, C. J. (D. G. Richards), London
Rees, J. G. (R. J. G. Lethbridge), Exeter
Rees, M. S. (D. L. Jones), Newport, Mon
Reeve, P. A. (Miss), (P. H. Tyack), London
Regan, L. P. (J. B. Pittman), London
Reid, G. A. (J. L. Crow), London
Reiss, M. (A. S. Sokel), London
Richards, G. M. (Miss), (I. MacLennan), Nairobi
Richardson, A. G. (W. H. V. Witcher), Reading
*Richardson, J. (V. F. Brown), London
Richardson, J. (Miss), (T. Bromley), Bolton
Roberts, M. C. (F. D. M. Lowry), Liverpool. (*The William Quilter Prize and the Plender Prize for the paper on Auditing*)
Roberts P. (D. Ellis), Portmadoc
Roberts, W. M. (D. Garrett), London
Robinson, B. C. D. (F. H. Carter), London
Rogers, C. C. (L. Ogden), London
Roiser, D. W. (E. H. Orford), London
Rope, J. H. P. (J. B. Rensome), London
*Rose, J. W. (L. H. Mitchell), London
Rosling, E. P. C. (H. Peat), London
Rosten, D. (G. A. King), London
Rourke, J. N. (R. Kettle), London
Rowan, T. S. (J. G. Ash), London
Rozier, M. A. (D. H. Rooke), London
Rusling, A. H. (E. R. Nicholson), London
Ryan, M. F. (N. E. Bicker), Bournemouth
Ryan, R. H. (E. A. Williams-Ashman), London

Sadler, J. A. (H. Sadler), Birmingham
Salmon, M. (W. M. J. Dobson), Ulverston
Salt, A. C. (W. B. Chapman), London
Sanders, R. G. W. (J. R. Chappell), Ilford
Sant, J. M. (G. M. Metcalf), Cardiff
Sara, G. W. (L. Owen), Birmingham
*Saunders, K. W. J. (J. F. Wreford), London
Saunter, P. (J. H. Saunter), London
Schwartz, A. A. (D. N. Curitz), Cardiff

* See also Certificate of Merit above.

- Scotchmer, D. W., London
 Scott, M. (J. C. Sherrott), Brighton
 Scott, P. J. (A. C. Croft), Hull
 Scott, S. L. (L. F. Durman), London
 Sealey, C. R. (S. V. Bye), Middlesbrough
 Sedman, B. (A. Martyn), Grimsby
 Seth, S. K. (B. W. Brewer), London
 Shafto, R. J. (H. W. V. Pullan), London
 Shaikh, Z. A. (S. E. Newman), London
 Shaw, I. R. (M. Sheppard), Sheffield
 Shaw, R. (H. B. Johnson), Dudley
 Sheldon, J. C., London
 Shi, S. S. (M. Apple), London
 Shutte, M. D. N. (J. W. W. Mason), London
 Siddiqui, K. A. (E. H. Leigh), London
 Siddle, K. (A. H. Smalley), Coventry
 Sidney, B. L. M. (D. F. Barron), Evesham
 Sims, H. G. (A. J. Gill), Lowestoft
 Sinden, M. P. G. (K. A. Pollock), Rochester
 Skelchy, A. J. (G. E. Millson), London
 Skelton, A. M. (E. G. Chadwick), Hull
 Skingle, D. N. (L. E. Grimshaw), Worcester Park
 Slade, J. E. (A. E. M. Harbottle), Bristol
 Smellie, K. G. (K. J. D'A. Mason), Birmingham
 Smith, A. C. (H. A. Snell), Bristol
 Smith, A. T. (E. Walkden), Bolton
 Smith, B. P. (H. E. Brown), London
 Smith, E. (Miss), (R. C. Copeman), Hull
 Smith, H. S. (S. Smith), Manchester
 Smith, M. S. (E. W. Dowdy), London
 Smith, P. D. (H. B. T. Wilde), Birmingham
 Snow, G. B. (H. Peat), London
 Snowden, D. J. (C. Long), Bradford
 Soar, B. F. (F. V. Sinden), London
 Solomons, K. S. (E. H. Orford), London
 Somekh, V. A. (Miss), (G. A. Weiss), London
 Sommerville, A. J. C. (G. Place), East Grinstead
 Sovin, L. J. (H. Newman), London
 Spence, D. (C. W. H. Jackson), Nottingham
 Spiby, G. E. (D. W. Usher), Manchester
 Spooner, I. G. (D. D. Williamson), London
 Sprawson, D. A. (J. B. Burnie), Nottingham
 Staniland, J. J. (F. Fuller), Ripley
 Starbuck, G. (A. A. Bradshaw), London
 Stead, P. V. (K. A. Fossey), Leeds
 Steer, M. D. (J. F. Butlin), London
 Stephens, M. (A. Ball), Manchester
 Stevenson, B. B. (J. F. Shuttleworth), London
 Stew, D. J. (J. F. Ray), Oxford
 Stewart, J. W. (J. Smalley), Manchester
 Stewart, M. J. K. (N. G. Bascombe), Bristol
 Stirling, A. P. (W. H. Bevan), London
 Stirling, J. L. (A. D. Seward), London
 Stone, G. R. (B. I. Freedman), Cardiff
 Stone, I. M. (L. E. Brown), Cardiff
 Stone, P. H. (T. L. Mylchreest), Douglas, I.o.M.
 Stonehouse, R. (R. G. Leach), London
 Strand, B. G. (A. B. Ramsden), Aylesbury
 Strange, E. A. (E. G. Strachan), London
 Strange, M. C. (J. O. Faulkner), Swindon
 Stuttaford, T. F. (A. R. Tyler), East Grinstead
 Sugarwhite, J. (T. J. Newman), London
 Swales, P. N. Q. (J. Taylor), Newcastle upon Tyne
- Tan, C. C. (S. C. Selwyn), London
 Tayler, R. J. (R. R. Coomber), London
 Taylor, E. W. (P. R. Dallow), Birmingham
 Taylor, L. (A. A. Davis), London
 Taylor, M. G. (F. W. English), London
 Telling, R. C. (R. F. Cheesman), London
 Tetlow, M. G. (formerly with C. N. Lee, deceased), Leeds
 Thomas, G. E. B. (F. W. Charles), London
 Thompson, G. E. (D. B. Ward), Newcastle upon Tyne
 Thomson, A. W. (E. R. White), South Shields
 Thomson, D. (J. T. Patterson), London
 Thomson, W. (Miss), (C. F. Bullworthy), Newport, I.W.
 Thornes, F. C. (F. Fox), Bradford
 Thornton, T. C. St. L. (B. Thomas), Sheffield
 Threlford, D. G. (A. G. Warne), London
 Tilbury, D. K. (R. C. Methold), Worthing
 Tillman, E. A. (A. D. Inglis), London
 Tingle, K. E. (E. Richmond), London
- Tinker, G. B. (F. P. Fearnley), Leeds
 Tinwell, G. (V. N. Strevens), London
 Tite, A., Manchester
 Tite, A. C. (K. C. Lindsay), London
 Tizzard, B. R. (R. G. Fox), Southampton
 Toff, S. (M. Cooper), London
 Tolson, N. (I. F. Halliday), Huddersfield
 Town, G. V. (E. Eastwood), Bradford
 Traynor, B. J. P. (B. I. Freedman), Cardiff
 Trup, C. (C. V. Best), London
 Tuke, J. E. (C. R. Booth), Bradford
 Turberfield, D. (formerly with J. Gough, deceased), Dudley
 Turley, R. C. (G. W. Hunt), London
 Turnbull, J. C. (M. E. Hatch), London
 Turner, The Hon. J. A. (F. W. Charles), London
 Turner, S. R. (J. E. Park), London
 Twena, E. N., London
 Tyrer, P. G. (J. F. T. Nangle), London
 Tyson, D. R. (W. B. Waite), Barrow-in-Furness
 Tytler, R. M. (J. S. Darwell), Blackpool
- Uttamot, V. (J. W. Walkden), Northampton
- Vaidyanathan, V. (M. G. Miles), London
 Vine, W. H. (G. A. J. Morris), London
- Waddicor, J. R. (J. R. N. Travis), Manchester
 Waddington, J. R. (E. H. Illingworth), Huddersfield
 Wade, M. H. (P. Cross), Southampton
 Wainwright, B. F. (H. L. Brown), London
 Wakefield, E. D. E. (O. W. Horne), Brighton
 Walker, D. (D. C. Brotherton), Manchester
 Wallace, M. M. (H. J. H. Sisson), Newcastle upon Tyne
 Wallis, J. R. A. (J. H. Rhodes), Leeds
 Walmsley, G. (F. W. Langley), Liverpool
 Warburton, H., Manchester
 Ward, A. D. (R. G. C. Horton), London
 Warne, P. B. (A. G. B. Burney), London
 Watchorn, I. S. (J. A. Deed), London
 Watkins, P. G. (P. F. Carpenter), London
 Watt, J. (N. A. Hulme), Manchester
 Watts, D. (Sir William Carrington), London
 Watts, M. A. (D. G. Gordon), Bournemouth
 Webb, H. W. (D. A. Thornley), London
 Welch, P. J. (A. P. Roberts), Birmingham
 Wellsbury, M. W. (H. Cook), Wolverhampton
 Wenban, J. K. P. (J. Stephenson), Peterborough
 West, D. W. (R. L. Emmitt), Sheffield
 Wheaton, A. (Mrs), (P. A. G. Mullens), Port Talbot
 Whipp, J. A. (C. S. Moores), Exeter
 White, M. C. (Miss), (H. C. Hopkin), Cardiff
 White, P. E. O. (J. H. Mitchener), Southampton
 Wilcher, C. D. (J. W. G. Mitchell), Bradford
 Wilden, B. M. (P. G. Walker), Warrington
 Wilkinson, A. J. (J. Perfect), London
 Williams, A. B., Cardiff
 Williams, A. G. (H. F. J. Cadwallader), Welshpool
 Williams, D. A. (L. J. W. Gould), London
 *Williams, D. J. (C. G. Jolliffe), Newport, Mon
 Williams, P. M. (W. G. Kay), London
 Williamson, R. R. (K. J. Hilton), South Shields
 Willis, D. H. (C. T. Ayles), Sunderland
 Wilson, R. L. (H. J. Sargeant), West Hartlepool
 Wilson, W. A. (M. J. Jackman), London
 Witts, A. G. (H. Bolton), Leeds
 Woodford, K. R. (L. Booth), Witney
 Woods, M. W. (J. D. Hodgson), Launceston
 Worbey, R. C. (R. E. Wagstaff), Stevenage
 Wynn, A. W. (R. Garner), Leicester
 Wynniatt-Husey, R. E. (I. R. McNeil), Hove
- Yazgi, R. J. (H. P. Nunes Vaz), London
 Yeeles, M. T. (F. M. Kellett), Newcastle upon Tyne
 Yelland, A. P. (J. B. Worley), London
 You, N. (J. E. Hughes), Liverpool
 Youds, R. W. J. (C. O. Reay), Liverpool
 Young, R. L. M. (W. Broad), London
 Yuen, D. S. M. (S. Cohen), London
 Yule, A. H. (E. L. Kenworthy), Birmingham
- Zaum, B. (E. W. Coleman), London

693 Candidates passed**805 Candidates failed**

* See also Certificate of Merit above.

INTERMEDIATE EXAMINATION

Held on May 23rd, 24th, 25th and 26th

Certificates of Merit and Prizes Awarded

First Certificate of Merit, the Institute Prize and the Frederick Whinney Prize
Stein, Richard Jonathan Beaver (W. T. Meigh), London

Second Certificate of Merit, the Robert Fletcher Prize and the Plender Prize for the paper on Book-keeping and Accounts (Limited Companies)
Matthew, Philip Gregory (E. G. Lambard) London

Third Certificate of Merit, the Tom Walton Prize and the Plender Prizes for the papers on Taxation and Cost Accounting (equal with one other) and Book-keeping and Accounts (Executorship)
Cripps, Brian Ernest (T. E. Dane), Manchester

Fourth Certificate of Merit
Williams, John Edmund (J. O. R. Darby), London

Fifth Certificate of Merit and the Plender Prize for the paper on Auditing
Ellington, Richard Thomas Padfield (C. Romer-Lee), London

Sixth Certificate of Merit and the Flight-Lieutenant Dudley Hewitt, D.F.C., Prize
Hindle, Robert Keith (N. J. B. Smith), Manchester

Seventh Certificate of Merit
Kelly, Martin (E. C. Greenbury), London

Eighth Certificate of Merit and the Plender Prize for the paper on Taxation and Cost Accounting (equal with one other)
Murfitt, William Kay (F. K. Murfitt), Nelson

Eighth Certificate of Merit
Barfield, Arthur Victor Harold (R. G. R. Sisson), Gt Yarmouth

Tenth Certificate of Merit
Musgrave, Christopher Francis (J. C. J. Clark), Hove

Eleventh Certificate of Merit
Nixon, John (P. Brook), Bradford

Twelfth Certificate of Merit
Vincent, John Antony (W. R. Middleton), London

Thirteenth Certificate of Merit and the Plender Prize for the paper on General Commercial Knowledge
Barnett, Betty (D. G. W. Ballard), London

Thirteenth Certificate of Merit
Reynolds, Lancelot Fitzgerald (A. T. How), London

Fifteenth Certificate of Merit
Murray, John Howard (J. A. Cook), Stockton-on-Tees

Sixteenth Certificate of Merit
Pratt, Edward John (K. G. Warriner), Leeds

Seventeenth Certificate of Merit
Sharpe, Guy William (C. D. Smith), London

Eighteenth Certificate of Merit
Mortimer, Barry (B. D. Alexander), Maidstone

Nineteenth Certificate of Merit
Currie, Brian Murdoch (E. E. P. Maltby), London

Twentieth Certificate of Merit

Richardson, John (J. G. Holcroft), Bacup

*Twenty-first Certificate of Merit*Birdsall, Eric Graham (A. L. Braithwaite), Leeds
Creamer, John Edward (J. H. Grove), London
Morris, Jeffrey Owen (B. E. Evans), Pontypridd*Twenty-fourth Certificate of Merit*Paun, Rajnikant Jagjivan (F. S. Young), London
Rainey, Graham John Holmes (A. S. Maddison), Birmingham*Twenty-sixth Certificate of Merit*

Wax, Robert Jacques (S. M. Bickerton), Manchester

Full List of Names of Successful Candidates**(In alphabetical order)***The name shown in brackets is the name of the principal to whom the clerk has been articled. Where the name of the principal is not given the candidate is a former bye-law candidate of the Society continuing his qualifying service not under articles.)*

Aaronberg, P. (I. B. Paul), London
 Abbasakoor, U. N. (T. J. Newman), London
 Abdullah, M. (W. E. Thompson), Manchester
 Aboderin, J. O. (E. C. A. Arnold), Hove
 Abrahams, N. L. (I. F. D. Hill), Liverpool
 Acloque, D. (A. Beaton), London
 Acton-Browne, B. R. (R. O. McIlwrick), Manchester
 Adam, J. C. H. (K. G. M. Harding), Liverpool.
 Adams, J. T. (W. G. Adams), London
 Adams, P. E. (R. Tunnard), Wisbech
 Adams, R. A. (G. G. Goode), Birmingham
 Adey, J. V. (L. F. Durman), London
 Adiyiah, E. O. (J. O. Magee), Chingford
 Ahmed, I. (R. M. Filer), London
 Aiken, J. (J. Wilkie), Newcastle upon Tyne
 Alele, S. I. (M. G. Spofforth), Worthing
 Allam, A. L. (Miss), (J. A. K. Collins), Newport, I.W.
 Allely, I. W. (G. W. Firkins), Birmingham
 Allen, D. J. (B. E. Evans), Pontypridd
 Amies, T. J. (D. B. Buick), London
 Amin, J. S. (R. Marks), London
 Andrewes, J. D. (M. B. Sarson), Oxford
 Anguah-Boafo, B. C. (T. J. Newman), London
 Ani, A. A. (N. C. Elliott), London
 Ansell, P. D. (R. H. Nicholson), London
 Ariaratnam, N. (T. W. Selbey), London
 Aries, E. (K. C. R. Trafford), Oxford
 Armitage, H. J. H. (S. A. Letts), London
 Ash, D. A. (G. L. Guard), Stratford on Avon
 Ashpole, G. W. (A. J. Lovatt), Peterborough
 Astill, J. (M. H. Bradbury), London
 Atkinson, D. J. (T. D. C. Taft), Nottingham
 Atkinson, R. I. (R. D. Thomlinson), Carlisle

Bacon, R. M. J. (B. C. Dixie), London
 Baggott, M. (T. H. Mitchell), Manchester
 Bagot, D. W. (R. M. Peat), London
 Bailey, D. R. (W. L. Richardson), Birmingham
 Baines, P. (C. F. Savage), Warrington
 Baird, W. B. (C. H. Bruce), Hull
 Baker, R. K. G. (R. G. Scott), London
 Ball, C. J. (P. Clarke), Bolton
 Ball, R. W. (T. A. H. Baynes), Birmingham
 Bancroft, M. H. (L. D. Morse), London
 Banks, J. L. C. (T. M. Carmichael), London
 Barber, K. G. (A. C. Goddard), London
 Barclay, A. R. C. (G. G. Youngs), Norwich
 *Barfield, A. V. H. (R. G. R. Sisson), Gt Yarmouth
 Barker, J. R. D. (W. R. Jenkinson), Sheffield
 *Barnett, B. (Miss), (D. G. W. Ballard), London
 Barnwell, J. (C. F. Free), York
 Barrable, C. M. (F. A. M. McDanell), London
 Barton, E. (Miss), (W. G. Wallworth), Preston
 Barwick, R. (W. S. Samuda), Worcester Park
 Bawhab, A. B. A. (S. D. Jacob), Birmingham
 Baxendale, T. (H. G. Jenkins), Chester

Baxter, P. (J. D. Green), London
 Beale, S. A. (H. Gompertz), Birmingham
 Beamish, R. E. de C. (G. Flower), London
 Beards, J. P. (R. H. Martin), Cardiff
 Bell, A. M. (H. D. Waller), Newcastle upon Tyne
 Belshaw, B. E. (C. L. O'Callaghan), Nottingham
 Bennett, C. J. (E. H. Orford), London
 Bennett, D. S. (A. I. Wyborn), London
 Bennett, R. (R. Gronow), Wolverhampton
 Berwick, G. R. G. (P. C. Rutland), Croydon
 Bevan, B. C. W. (C. C. Bigg), London
 Billings, R. A. (E. Lord), Birmingham
 Bindlish, R. K. (D. Warner), London
 *Birdsall, E. G. (A. L. Braithwaite), Leeds
 Birt, S. J. L. (D. J. Ginnings), London
 Bishop, E. R. (G. H. Jackson), Sutton
 Bishop, R. D. (E. B. Bate), Bristol¹
 Blackburn, W. (S. W. Telfer), Newcastle upon Tyne
 Blanchard, P. (A. S. Price), Leicester
 Bland, E. (T. D. Walker), London
 Bland, M. N. (I. L. Haffner), Manchester
 Bland, W. (J. H. Saunter), London
 Bloom, H. (T. A. Morton), London
 Boland, W. (W. R. Antrobus), Bury
 Bonham-Carter, T. J. (J. T. Rutherford), London
 Bonser, A. M. H. (N. E. Rees), London
 Boon, P. R. (S. Fawcett), Salisbury
 Boot, R. F. (D. Sirkin), Leicester
 Booth, D. B. (S. Fawcett), Salisbury
 Booth, N. D. (N. Acomb), Keighley
 Bose, D. K. (R. Y. Taylor), Manchester
 Botwright, R. N. (R. G. W. Walker), London
 Bouchier, C. S. (J. C. MacGregor), Liverpool
 Bowers, F. I. (Mrs), (H. J. R. Roffe), Godalming
 Bowler, M. D. (L. F. H. Jones), Lymington
 Braithwaite, H. P. (J. W. Berriman), Middlesbrough
 Bravo, G. P. (S. Krieman), London
 Breen, G. C. (J. W. Walkden), Northampton
 Brett, A. C. (H. Lemmon), King's Lynn
 Brickell, M. J. B. (F. C. Roy), Worcester
 Brickhill, T. D. (H. B. Collett Smith), London
 Bright, R. C. (F. F. Leach), London
 Bristow, A. L. (W. A. Hand), London
 Brockman, S. (F. W. Charles), London
 Brody, R. (I. L. Haffner), Manchester
 Brody, S. (H. A. Coates), Manchester
 Brooks, F. C. (F. G. Peacock), London
 Brown, B. A. (Miss), (F. G. White), London
 Brown, D. (J. D. King), London
 Browning, C. R. (T. B. M. Roberts), London
 Bruff, P. F. J. (W. H. Shears), London
 Brummitt, D. (J. Christie), Huddersfield
 Buckett, C. J. (C. R. Goulder), London
 Buckley, M. A. C. (G. Place), East Grinstead
 Buckley, T. R. (C. H. King), London
 Buckwell, P. R. (H. L. Bloom), London
 Bulley, A. M. (G. A. Lillywhite), London

* See also Certificate of Merit above.

Burden, E. T. (H. G. P. Lewis), Southsea
Burrell, J. E. (D. H. Peed), London
Burridge, R. V. (H. C. M. Lewis), Eastleigh
Burton, G. C. (C. E. Peers), London
Bush, A. E. L. (B. J. Ketchlee), London
Bush, J. A. (L. D. Hayward), Liverpool
Butler, C. J. (E. A. W. Gisby), London
Butler-Cole, D. F. (H. Wilcock), London
Butterworth, B. (P. Sheard), Huddersfield

Calvert, P. M. (G. D. Hopkinson), Birmingham
Cambridge, M. B. (K. C. Pearce), London
Cameron, D. W. (C. I. Steen), London
Cameron, N. A. (R. W. Whittaker), London
Camidge, M. E. (M. E. Roberts), Leeds
Camozi, G. A. (G. N. Robson), Newcastle upon Tyne
Campbell, P. E. (G. B. Judd), London
Campion, H. J. A. P. (J. E. Borrett), London
Campion, S. P. (C. A. Chapman), London
Carr, B. M. (H. J. H. Greenacre), London
Carroll, R. E. (F. C. Smailes), Bristol
Cartwright, A. R. (J. D. Jasper), Cradley Heath
Carver, W. G. (T. H. Parker), Manchester
Case, W. F. (A. H. Pickavance), St Helens
Cashman, S. (B. M. Smith), London
Casleton, T. D. (J. T. Corbett), London
Catterall, A. H. (L. D. Hayward), Liverpool
Chambers, C. (E. Adams), Bradford
Chan, R. S. H. (Miss), (B. Garbacz), London
Charlton, P. J. (R. B. de Zouche), Liverpool
Charlton, W. (T. S. Milburn), North Shields
Charles, D. W. (P. D. Webb), Manchester
Chippington, J. M. (W. E. Carnelley), London
Christlieb, J. A. (C. E. M. Emmerson), London
Clapham, M. D. (D. H. Lewis), Wolverhampton
Clark, A. M. (H. C. M. Lewis), Eastleigh
Clark, J. W. (J. E. MacSwiney), London
Clark, T. C. (A. E. C. Hartnell), London
Clarkson, H. W. (G. A. Ascough), Leeds
Cleaver, J. A. (C. C. Bigg), London
Clements, F. J. G. (L. Davies), Wolverhampton
Cobley, K. (W. G. Adams), London
Cock, A. C. (J. S. Pollard), London
Cockram, P. (K. McN. Black), Matlock
Cockshaw, W. R. (B. Ward), Huddersfield
Cole, A. J. (F. B. Proctor), London
Collier, N. J. (H. B. Bradfield), Nottingham
Collins, D. H. (T. W. E. Booth), Manchester
Collins, J. D. (N. Foulger), London
Collison, B. (T. A. H. Baynes), Birmingham
Collum, H. R. (S. J. D. Corsan), London
Colvill, M. A. T. A. (A. E. Bayliss), London
Comber, A. P. (W. A. T. Matheson), London
Compton, D. H. (A. D. Wardle), London
Conner, L. H. P. (R. N. D. Langdon), London
Connolly, M. (B. A. Clark), London
Cook, E. J. (J. M. Pinder), Epsom
Cook, R. F. W. (C. K. Krost), Leeds
Coombs, M. J. (Miss), (M. Mannington), London
Cooper, R. E. B. (F. L. Gower), Ipswich
Copestick, A. R. (K. W. G. Webb), London
Cornelius, A. J. (F. A. H. Skinner), London
Cornelius, P. (G. J. Simler), London
Corscadden, J. A. B. (E. Corscadden), Wakefield
Coveney, R. H. (F. E. Wood), Manchester
Cowley, M. K. (Miss), (S. P. Smith), Burnley
Cowperthwaite, J. L. (E. R. Nicholson), London
Cox, R. B. (J. C. Howard), London
Craig, J. S. (H. J. Gittos), Birmingham
Crawford, B. V. (P. Pratt), Hastings
Crawford, P. F. (E. Catherall), Chester
*Creamer, J. E. (J. H. Grove), London
Crinks, F. W. (J. E. Squires), Cambridge
*Cripps, B. E. (T. E. Dane), Manchester
Critchley, D. W. (T. F. Alston), Manchester
Crittenden, P. J. (M. E. Riddelsell), London
Crosby, N. (A. H. Smith), Spalding
Crowhurst, J. H. (M. St. A. Moore), London
Croxtan, F. W. (S. H. Cooper), Wallington
Cruden, C. A. (E. J. Woodhams), London
Crush, J. A. (C. E. Kendall), Portsmouth
Cruze, B. (P. J. Digby), London
Cullen, J. S. (M. N. Shaw), Dewsbury
*Currie, B. M. (E. E. P. Maltby), London
Cuthbert-Smith, P. L. (W. Mc.D. Morison), London

Dale, V. G. (D. F. Pratten), Swansea
Dallison, M. T. (C. Romer-Lee), London. (*The Plender Prize for the paper on Book-keeping and Accounts (Partnership)*).
Dallow, R. L. (F. Broadie), Manchester
Daly, J. J. (M. I. Tailby), Birmingham
Darby, M. (G. W. Bowker), Manchester
Daubeny, C. N. (R. A. W. Caine), London
Davenport, M. T. (R. S. Gordon), Manchester
Davey, R. J. C. (N. Davies), London
Davies, C. G. (R. H. Hughes), Wolverhampton
Davies, O. H. (C. Wallington), London
Davies, P. R. (N. G. Phillips), London
Davis, D., Birmingham
Davis, G. F. (G. D. Farmiloe), Birmingham
Davis, J. S. (E. J. Pinniger), Salisbury
Davis, J. S. (B. C. Scurr), Alton
Davis, M. (G. H. Kelsey), Lincoln
Davis, M. J. (E. O. Toft), Stoke-on-Trent
Davis, R. M. (J. S. Sutton), Birmingham
Dawes, R. G. A. (C. E. West), London
Day, F. G. (V. H. Wade), London
Deal, P. A. (C. Green), Manchester
de Courcy Thompson, J. B. (H. J. Williams), London
Dennison, D. B. (F. W. Doleman), Leicester
Desai, D. R. (L. Marks), London
Dever, E. (S. R. Aldrich), Preston
Dibden, R. G. J. (C. H. Mead), Bournemouth
Dick, K. J. (E. C. Meade), London
Dicken, T. H. C. (P. B. Milne), London
Doel, H. F. (R. W. Wheeler), London
Dolling, D. S. (Miss), (J. R. Gregory), Brigg
Doody, N. B. (J. P. Stewart), Camberley
Dornan, J. E. (J. L. Wells), Kettering
Dovernor, J. (N. Acomb), Keighley
Draper, D. G. (F. P. Wilson), Manchester
Drew, J. D. (G. C. Peat), London
Drinnan, A. C. (E. W. Manssuer), Warrington
Driscoll, B. L. D. (R. B. T. Castle), London
Drower, J. R. (Miss), (T. E. Swancott), London
Duckworth, G. H. (J. Seal), Manchester
Dudgeon, J. E. (C. R. Riddington), Leicester
Dudley, G. T. (T. A. J. Webster), Leicester
Duggan, J. (A. R. Chapman), Newcastle upon Tyne
Duncan, M. G. (R. F. Hayllar), London
Dungey, N. (G. A. Molineux), London
Dunlop, K. M. (P. Hemingway), Leeds
Dunn, P. A. (L. N. Winder), Liverpool
Dunning, D. V. (O. R. K. Barnett), Andover
Dyke, T. D. (N. E. Dunning), Hanley
Earl, B. G. (S. G. Prime), London
Earl, J. N. (J. W. Parker), Penrith
Easterbrook, A. C. (R. H. Passmore), Torquay
Eckley, N. R. (A. J. Leach), Hereford
Edwards, G. M. (T. H. Trump), Cardiff
Elkes, J. O. (K. M. Scott), London
*Ellington, R. T. P. (C. Romer-Lee), London
Elstob, M. C. (K. Russam), Bradford
Emery, R. G. (E. E. P. Maltby), London
Engel, E. M. (Miss), (R. R. Elliott), Ilford
English, W. (E. G. Little), Carlisle
Enright, P. M. (M. D. Booth), Newbury
Evans, J. I. (J. Morris), Manchester
Exley, D. (K. Davison), Cleckheaton
Ezeamii, A. N. A. (J. J. Lopian), Manchester
Farrington, T. J. (S. E. Clear), Bedford
Faulks, M. G. W. (H. D. Radford), Birmingham
Feingold, J. G. (J. J. Lopian), Manchester
Fellows, A. E. M. (R. C. P. Wheeler), Sudbury
Ferguson, M. S. (W. E. Thompson), Manchester
Firks, R. M. (J. R. Pearson), Bath
Fisher, R. S. (A. A. Bradshaw), Cranleigh
Fitton, M. (G. L. A. Davis), London
Flanagan, D. A. (D. W. Stirling), Birmingham
Flavell, J. S. (N. F. Trayler), Bognor Regis
Fletcher, R. M. (H. G. P. Greenwood), London
Fletcher, V. E. (Miss), (J. H. Fendley), Carlisle
Floud, J. R. (J. W. Williams), London
Floyd, A. E. (E. A. Charles), London
Foale, G. D. K. (R. H. Passmore), Torquay
Folkard, F. G., Hull
Foot, K. B. (L. F. H. Jones), Lymington
Ford, D. (P. Parr-Head), London
Foster, B. A. (H. R. Powell), Dudley

* See also Certificate of Merit above.

August 19th, 1961

Foster-Brown, R. S. (N. M. Civval), London
 Foxall, B. R. (S. G. G. Ohly), Hove
 Foyster, W. R. (J. P. Stephens), London
 Francis, D. A. (A. G. Bragg), Birmingham
 Franklin, M. D. (H. G. Pinner), Redditch
 Fredericks, M. E. (R. Adams), Bognor Regis
 Frei, A. (S. R. Russell), London
 Fripp, C. A. (R. C. Fripp), London

Gairdner, J. A. C. (D. C. Hobson), London
 Gale, B. W. (G. Place), East Grinstead
 Gale, J. R. (R. G. Howell-Jones), London
 Gallagher, G. R. (H. S. Widgery), Hereford
 Gange, G. D. B. (D. T. Veale), Leeds
 Gare, T. (W. E. Roberts), Stockport
 Garside, J. F. (T. R. Swallow), Oldham
 Gaywood, P. (T. H. Trump), Cardiff
 Gee, A. (T. Lund), Accrington
 Geer, P. N. (D. L. Cambridge), London
 Gibb, C. (Miss), (M. Fox), London
 Gifford-Gifford, M. B. (J. H. Phillips), London
 Gilbert, J. (W. A. Waite), Barrow-in-Furness
 Giles, K. M. (C. H. Pettit), Northampton
 Gillings, B. Leeds
 Godfrey, P. B. (A. R. Armstrong), Manchester
 Godley, D. L. (L. D. Rose), London
 Goldsworthy, J. A., London
 Goodall, S. (B. Halpern), Manchester
 Goulding, D. C. (T. G. W. Luscombe), Newton Abbot
 Gough, A. R. (I. H. Hayward), Nottingham
 Gould, A. J. (A. J. Gould), Newquay
 Gould, E. B. (formerly with T. W. Spencer, deceased), Newcastle upon Tyne
 Gould, M. J. (J. E. Jackson), Kendal
 Goulding, M. N. (M. B. Hancock), Birmingham
 Grammer, C. J. (D. E. Brewster), London
 Grant, I. C. (C. B. Cawthorne), London
 Grapes, J. C. (D. R. Fray), Southampton
 Green, A. J. (W. E. Quance), Birmingham
 Green, A. N. (G. H. Bennett), London
 Greenhalgh, G. F. (R. G. Davey), London
 Greenough, M. A. (J. B. Hustwick), Bradford
 Gresty, P. J. (H. Sharp), Manchester
 Grier, R. (A. C. Shay), London
 Griffiths, K. D. (L. N. Vizard), Cheltenham
 Grix, J. H. R. (H. C. Castle), Birmingham
 Grosvenor, S. (J. W. Berriman), Middlesbrough
 Guest, J. V. (C. J. M. Bennett), London
 Gunasekera, N. D. S. (S. F. Homewood), London

Hadjitofi, P. (C. V. Miles), Cardiff
 Hacker, J. R. (F. McD. Hall), London
 Hailes, R. E. (W. J. Germing), London
 Hale, A. J. (V. S. Gregg), London
 Haley, R. (L. Wilson), Halifax
 Hall, A. P. V. (H. W. Bonello), Nottingham
 Hall, B. (F. M. Taylor), Newport, I.W.
 Hall, T. S. (V. A. Tudball), London
 Hallas, G. (D. B. Simpson), Huddersfield
 Hallsworth, N. E. (D. J. T. Corbett), Nottingham
 Hammond, R. J. E. (R. F. W. Sheraton), Brighton
 Hancock, N. L. (J. F. S. Rogers), London
 Handley, G. (L. G. Fetzner), Newcastle, Staffs
 Hanson, J. R. R. (H. Marriner), Leeds
 Harcombe, K. I. (J. H. Wilkinson), Macclesfield
 Hardy, K. (G. E. Rushton), Bradford
 Hare, C. G. (B. Hepburn), London
 Hargreaves, M. W. W. (J. E. Spoor), Newcastle upon Tyne
 Harman, D. C. (E. D. Miller), London
 Harris, S. J. (P. R. Dallow), Birmingham
 Harrison, C. T. (J. S. Johnson), Liverpool
 Harrison, R. D. (G. L. Wilner), London
 Harrison, W. H. (R. H. Wood), Bradford
 Hart, P. E. (E. H. Head), London
 Hartley, A. S. M. (B. F. Wheeler), London
 Harvey, B. P. (E. R. Nicholson), London
 Harwood, C. G. (W. H. Tarn), London
 Hawker, K. D. (A. M. Cooper), Yeovil
 Hawker, M. N. (J. G. Austin), Leicester
 Hayden, M. A. (R. S. Andrews), London
 Haynes, B. W. T. (E. S. Russell), Birmingham
 Hayward, P. A. (A. G. Ray), Nottingham
 Head, A. W. (F. W. Jones), Lewes
 Headland, E. (H. A. Sudell), London
 Heath, J. A. (G. F. R. Baguley), London

Hemmings, J. J. (G. F. C. Mellstrom), London
 Henton, R. G. (G. H. Camamile), Lincoln
 Herbert, E. G. (A. H. B. Wood), London
 Heslop, R. (J. S. Armstrong), Newcastle upon Tyne
 Heatherington, R. G. (L. N. Winder), Liverpool
 Hewetson, J. F. (K. S. Withers), Manchester
 Hewett, J. C. B. (G. R. A. Wixley), London
 Hickman, H. W. (M. E. Culley), Birmingham
 Hickman, M. W. (J. F. Shearer), London
 Hignett, T. T. (T. G. Blackwell), Hendon
 Hill, C. J. R. (A. S. Willies), London
 Hill, T. A. (J. A. Hartley), Leeds
 Hilliard, B. R. (W. C. Read), Dudley
 *Hindle, R. K. (N. J. B. Smith), Manchester
 Hinkles, J. B. (G. D. Verity), Bradford
 Hitchcox, D. M. W. (C. J. M. Bennett), London
 Hodge, P. A. (W. E. W. Mitchell), Hastings
 Hodgkinson, R. A. (H. J. Cotterill), Derby
 Hodgkison, R. J. M. (W. R. Bell), Herne Bay
 Hodgkiss, R. S. (B. J. Flint), Wolverhampton
 Hodgson-Barker, M. J. (J. C. Hounsfeld), London
 Holdsworth, R. (J. D. Hoyle), Huddersfield
 Holland, B. (J. Allured), Manchester
 Hollis, R. (D. L. Barlow), Bolton
 Holmes, O. M. (B. A. S. Soole), London
 Homan, G. F. (C. W. Bingham), Nottingham
 Hope, J. (J. H. Jackson), Leigh
 Horn, J. M. (H. O. H. Coulson), London
 Hossain, A. K. M. M. (H. P. Allsop), Birmingham
 Houghton, W. N. (S. Tickle), Birmingham
 Howard, R. G. (E. J. N. Nabarro), London
 Hoyle, R. (J. H. Bradley), Liverpool
 Hozier, J. A. (J. D. Brown), London
 Hubble, R. J. (R. H. Langdon-Davies), Oxford
 Hudson, P. (E. G. Squires), Luton
 Huelin, M. J. (Miss), C. G. Pile, Jersey
 Hughes, D. E. (H. Aldred), Chester
 Hughes, D. K. (S. V. Turner), Manchester
 Hunt, G. (I. F. Halliday), Huddersfield
 Hunter, S. A. (K. P. Helm), Hull
 Husband, T. G. (S. G. Sillem), London
 Hutchins, R. J. (L. H. Mitchell), London
 Hutt, C. J. (G. M. Richards), London
 Huxtable, G. B. (J. Whitehead), Leeds

Ingham, R. B. F. (J. T. Finnis), London
 Isaac, D. (E. R. Nicholson), London

Jackson, A. R. (P. A. Lewis), Manchester
 Jackson, D. E. C. (J. D. George), London
 Jackson, D. F. (J. A. Wild), Stockport
 Jackson, D. S. (A. E. C. Hartnell), London
 Jackson, J. S. (J. Jackson), Leigh
 Jagger, P. G. (A. W. Dalling), Brighton
 James, G. R. (R. G. Leach), London
 Jamieson, J. McA. (F. B. Massey), London
 Jamieson, L. S. N. (H. Evans), London
 Jarvis, B. J. (G. T. Edgington), Oxford
 Jary, C. J. (J. H. Groves), Newcastle upon Tyne
 Jemson, J. A. (R. B. Sellers), Preston
 Jenkins, D. H. (R. L. Latimer), London
 Jenkyn-Jones, W. A. (G. F. K. Morgan), Cardiff
 John, A. E. (W. R. Jones), Milford Haven
 Johns, B. E. M. (F. T. Snow), London
 Johnson, C. E. (H. A. Ryley), Smethwick
 Johnson, D. V. (W. Swinburne), Preston
 Johnson, H. P. (A. Macdonald), Hull
 Johnson, K. W. (W. A. Waite), Barrow-in-Furness
 Jones, B. R. (G. St C. Wycherley), Wolverhampton
 Jones, B. W. (J. Bardsley), Newark
 Jones, J. I. (C. Wheatley), Birmingham
 Jones, N. B. (E. Corcoran), Manchester
 Jones, T. J. (S. Garner), Manchester
 Jones, T. S. K. (F. Hargreaves), Swansea
 Jones, T. L. (D. L. Jones), Newport, Mon
 Jopling, D. W. (B. W. Graves), London
 Jopp, K. E. (J. L. Simpson), Kingston upon Thames
 Jouault, E. R. J. (D. D. Rae Smith), London
 Joynson, D. (P. Gandy), Warrington
 Judd, D. H. (R. W. C. Dunn), Birmingham

Kamal, A. B. A. (A. W. S. Tabbarnor), London
 Kay, D. H. (E. B. Orr), London
 Kay, G. T. (W. R. Antrobus), Bury
 Kay, P. M. (F. S. Hall), Sheffield

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- Keal, B. A. C. (J. R. Antoine), High Wycombe
 Kearne, R. T. (B. W. Lawley), Birmingham
 Kelly, G. C. (J. A. C. Will), London
 *Kelly, M. (E. C. Greenbury), London
 Kelly, S. D. (N. F. C. Willey), London
 Kelsey, T. G. (G. H. Kelsey), Lincoln
 Kemm, M. J. (J. D. Castleman), Leicester
 Kenyon, A. (J. M. Farraday), Bury
 Kershaw, E. J. (W. E. Ogden), London
 Kettleley, J. H. B. (A. Barron), London
 Khan, A. (D. H. Hodkin), London
 Khan, A. R. A. (C. J. Jeffries), London
 Khan, M. A. (A. I. Miller), London
 Khan, M. A. (R. H. MacIntyre), London
 Khawaja, M. F.-U. (W. G. Brookes), London
 Kindaria, V. K. (E. O. Frank), London
 Kinane, M. P., Swansea
 King, A. D., London
 King, S. W. (P. T. G. Snuggs), Bournemouth
 Kirwan, M. R. (R. G. Leach), London
 Koenig, J. T. J.-C. M. (M. J. Bowman-Vaughan), London
 Kwan, R. C. Y. (D. A. Jacobs), London
- Lall, D. B. (M. B. Solomon), Manchester
 Lam, F. D. (F. E. Rowland), London
 Lansdale, B. (L. Forrest), Dewsbury
 Law, I. R. (F. O. M. Smith), London
 Lawrance, R. S. (M. R. Nathan), London
 Lawrence, G. J. (J. M. Freeman), Newbury
 Lawrence, J. F. (R. C. Fripp), London
 Leaver, A. M. (H. W. V. Pullan), London
 Leavy, R. J. (K. D. F. Guyton), Letchworth
 Lee, D. C. (C. B. Hardcastle), Northwood
 Lee, J. R. L. (G. M. Bickerton), Manchester
 Lee, M. C. (Miss), (F. G. Lee), Ilkeston
 Lefevre, B. M. A. G. (F. H. Cropp), London
 Leigh, M. E. (Miss), (P. D. Saville), London
 Lekhyananda, S. (J. A. Don Fox), London
 Lennox, W. J. (R. Walton), Leeds
 Leonard, A. W. (J. Godfrey), London
 Leonard, M. F. (A. V. Page), London
 Leslie, R. S. (I. G. de Mesquita), London
 Lever, J. B. (R. A. Heys), Manchester
 Lewis, J. P. H. (J. Perfect), London
 Lewys-Lloyd, A. D. (Miss), (E. N. MacDonald), Liverpool
 Liggins, J. A. (A. Guild), Coventry
 Lightfoot, D. W. (F. G. Hill), West Hartlepool
 Lindsay, H. (H. E. Harden), London
 Linger, R. G. (D. H. Thomas), London
 Lipkin, E. B. (J. M. Harvey), Liverpool
 Lister, J. T. (D. N. Curitz), Cardiff
 Llewellyn, C. J. (I. G. Miller), Cardiff
 Lomas, A. (J. B. Ellis), Buxton
 Lomas, K. J. (L. R. Cole), London
 Long, D. J. (H. M. Hawthorne), London
 Long, O. G. (C. E. Peers), London
 Longridge, D. J. E. (S. P. Quick), London
 Lord, R. W., London
 Lowe, D. L. (E. J. Comley), London
 Lowery, C. G. (T. S. Milburn), North Shields
 Lowndes, J. R. C. (T. Ashton), Nottingham
 Lucas, A. D. (C. C. L. Randall), London
 Lucas, J. P. (R. F. E. Asquith), Leeds
 Luckett, N. F. (J. H. Purslow), Walsall
 Lunt, R. (R. L. Davies), Northwich
 Lynn, R. S. (C. Luxton), Bradford
 Lyons, P. W. (R. E. Goate), Canterbury
 Lyttleton, J. A. (N. G. Reeves), London
- McCulloch, V. G. (B. Susman), London
 McDowell, R. E. (C. Gee), London
 Mace, G. A. (T. M. Sadler), Newcastle upon Tyne
 McEntyre, D. J. (A. J. Hack), Liverpool
 McGee, K. E. (C. D. Bolsover), Sheffield
 MacInnis, I. W. (R. E. Osborne), London
 McPherson, K. S. (G. G. Wight), London
 McTernan, B. P. (E. J. G. Wooding), Birmingham
 McWilliams, M. J. (J. Wilkie), Newcastle upon Tyne
 Magee, E. (J. A. Wild), Stockport
 Maidment, A. T. (C. Couchman), London
 Main, A. F. (C. A. Pocock), London
 Mallett, A. S. (P. Scarfe), Norwich
 Mallinson, P. H. (J. H. Mallinson), Manchester
 Manley, P. S. (T. Thornton), Burnley
 Marcus, M. B. (I. P. Jaffe), Manchester
- Marginson, T. B. (F. Pickup), Preston
 Marriott, H. E. (C. Woodhouse), Southsea
 Marshall, D. E. (J. K. MacDonald), London
 Marshall, I. (R. Varney), Spalding
 Marshall, R. D. (H. R. Wintrip), Newcastle upon Tyne
 Martin, W. K. (W. J. Wadley), Malvern
 Mason, R. D. (E. E. Ray), London
 Massey, P. B. (C. H. King), London
 Massey, R. C. (E. W. Knowles), Winchester
 Masters, D. (E. J. Simmonds), London
 *Matthew, P. G. (E. G. Lambard), London
 Matthews, W. B. (J. G. W. Dodd), London
 Maule, R. E. (M. B. Sarson), Oxford
 Mayatt, P. H. (G. E. Morrish), London
 Mehta, N. (M. Clifton), London
 Melville, R. E. (G. L. Eccleshall), London
 Mertens, J. A. (F. J. Thompson), London
 Metherell, J. (S. Cooke), Fareham
 Michie, B. (H. C. Jackson), Sheffield
 Midgley, D. F. (H. W. Smart), Dudley
 Millar, G. M., Edinburgh
 Miller, J. J. (A. R. Holden), Manchester
 Miller, P. A. (S. Edgecombe), Plymouth
 Mills, A. J. (G. A. Cherry), London
 Mills, R. M. (R. Curzon), Colchester
 Milton, J. D. (P. G. Hill), Huntingdon
 Mines, T. J. (F. H. G. Tompkins), London
 Minton, H. J. (Miss), (L. J. Bloch), London
 Mirchandani, D. R. (F. C. Stoneham), London
 Mitcham, A. J. (D. W. Turner), Wisbech
 Mitchell, B. (G. T. E. Chamberlain), Leicester
 Mogford, B. A. (R. H. Cobham), Birmingham
 Molony, P. J. (R. W. Warren), London
 Monk, R. G. (D. T. H. Nicholson), London
 Moore, C. G. (W. J. Dymott), London
 Moore, G. G. (I. G. Miller), Cardiff
 Moore, P. M. (W. E. Beddington), Derby
 Moores, C. G. (H. D. Collins), Southport
 Moorey, A. J. (A. Cowdy), Portsmouth
 Moorhouse, D. (J. M. Richards), Bradford
 Morgan, M. (S. Kershen), London
 Morgan, P. J. (A. C. Morris), Wolverhampton
 Morgan, R. K. (V. G. Mundy), Gloucester
 Morrell, J. C. (R. R. Coomber), London
 Morris, A. G. M. (F. D. M. Lowry), Liverpool
 Morris, H. J. (R. H. Martin), Cardiff
 *Morris, J. O. (B. E. Evans), Pontypridd
 Morris, S. (S. P. Wilkins), London
 Morris, S. F., London
 *Mortimer, B. (B. D. Alexander), Maidstone
 Morton, A. L. (J. W. L. French), Dunstable
 Mounter, K. M. (W. Curtis), Neath
 Mouser, G. H. W. (H. W. Bramley), London
 Mowat, M. C. (N. L. R. Trounce), Manchester
 Mowla, C. G. (J. S. Weyman), London
 Moye, J. G. (T. Howarth), London
 Mudalige, D. B. O. (J. I. Robertson), London
 Mulcaire, G. T. (H. Darrell), Croydon
 Murchie, C. S. (K. C. Cook), Liverpool
 *Murfitt, W. K. (F. K. Murfitt), Nelson
 *Murray, J. H. (J. A. Cook), Stockton-on-Tees
 Murton, D. B. (L. J. Moore), Newmarket
 *Musgrave, C. F. (J. C. J. Clark), Hove
 Muxworthy, P. R. (G. E. Gibbs), Swansea
 Myint, M. K. (T. J. Newman), London
- Naulls, M. (L. S. Wrightson), Grimsby
 Neil, J. A. (D. C. Burling), London
 Nelson-Gracie, R. (J. C. Littlejohns), London
 Nerurker, V. G. (D. B. Hirshfield), London
 Newbery, R. G. N. (C. A. Butt), Leamington Spa
 Newby, D. (F. Jeffery), Derby
 Newhouse, P. J. (C. H. W. Sansom), Middlesbrough
 Newman, J. M. (F. Goldstein), London
 Newman, M. J. (N. Brett), London
 Newsome, T. J. (J. Redshaw), Leeds
 Newton, J. P. (J. M. Fendley), Carlisle
 Nichols, B. F. (P. G. S. Kiely), Reading
 *Nixon, J. (P. Brook), Bradford
 Noakes, J. (K. Johnson), Leicester
 Nock, L. (C. R. Cooke), Birmingham
 Norbury, D. S. (J. S. Goodare), Birmingham
 Norbury, J. F. (H. McCreery), Manchester
 Norman, B. D. (E. G. J. W. Kent), Colchester
 Norton, J. L. (J. W. Clement), London

* See also Certificate of Merit above.

August 19th, 1961

Oates, W. (J. Fearnside), Bradford
 O'Callaghan, M. H. D. (E. E. Ray), London
 O'Connor-Fenton, T. P. (E. Heginbotham), Nottingham
 O'Driscoll, B. T. (J. A. Don Fox), London
 Ogbunju, V. U. (I. M. Morris), Manchester
 O'Kelly, E. B. (J. O. Elphick), London
 Oldhams, W. C. (D. B. Buick), London
 Oliver, A. L. (C. J. Hayward), Reading
 O'Meara, R. B. (T. B. Story), Nairobi
 Openshaw, J. D. (J. H. Whyte), South Shields
 Orme, D. C. (R. A. Stevens), Wolverhampton
 Osborne, W. L. F. (R. H. Martin), Cardiff
 Osmond, P. R. V. (A. H. Farquhar), London
 Otley, T. R. (S. J. Pears), London
 Overton, J. S. (W. G. Densem), London
 Owen, T. (W. L. Jones), Llandudno
 Oxley, W. (S. H. Buxton), Manchester

Padmore, P. S. (G. M. McColl), Southampton
 Palmer, J. A. (P. B. Norledge), London
 Parnell, M. K. (M. V. Vaughan), Portsmouth
 Pasquill, J. H. (R. Walton), Leeds
 Patel, M. U. (S. M. Lever), London
 Patel, P. C. (K. C. Taylor), London
 Paul, C. D. (F. W. Charles), London
 Paul, R. S. (J. C. Howard), London
 Paulding, R. J. (G. Ford), Bournemouth
 Paun, R. J. (F. S. Young), London
 Pavey, K. (A. J. Benjafield), Wells
 Pavey, K. H. (C. F. Horton), Maidstone
 Peach, J. M. (F. B. Peach), Burton-on-Trent
 Pearce, D. G. (W. F. Curtis), Exeter
 Pearce, J. B. N. M. (Sir Wentworth Rowland), London
 Pearce, L. F. (H. Greenwood), London
 Peedell, I. R. (S. E. Clark), Oxford
 Peet, D. E. I. (D. Peel), Elland
 Peirson, J. J. (S. G. Moss), London
 Perera, O. (D. Garrett), London
 Perkins, J. T. (H. L. Bangham), Swansea
 Phillip-Smith, J. P., Alton
 Phillips, B. C. (W. B. S. Walker), London
 Pickthall, T. (C. B. Fytche), London
 Picot, A. C. (D. E. Picot), Jersey
 Pieris, P. I. (A. W. Coleman), London
 Pilch, H. S. (D. L. Evans), London
 Pilcher, D. R. (D. E. Brewster), London
 Pilling, T. L. H. (W. F. Radford), London
 Pinder, J. G. (A. S. Watson), Southampton
 Pitt, J. R. (G. R. Fry), London
 Pittock, J. (B. Wright), London
 Pollard, A. M. W. (D. F. R. Baguley), London
 Pollard, J. W. (C. A. Noy), Nottingham
 Pollock, J. C. (J. D. Green), London
 Poole, J. C. (D. B. Stretton), Freshwater, I.W.
 Poole, R. (W. G. James), Cardiff
 Portergill, R. G. (J. Portergill), Banbury
 Poskitt, R. T. (J. S. Bolton), Leeds
 Pott, H. B. (A. Cunningham), London
 Pott, M. W. R. (N. B. Danbury), London
 Potts, L. (H. A. F. Brookes), Liverpool
 Powell, J. J. (T. H. How), London
 Powell, R. A. (W. E. Dewdney), Bristol
 Powvala, K. M. (R. S. Gordon), Manchester
 Pratt, E. J. (K. G. Warriner), Leeds
 Pratt, M. N. (H. E. Hard), Southend-on-Sea
 Prescott, C. R. (L. C. Hillier), Bromley
 Preston, C. T. (H. F. Leach), Bristol
 Primrose, S. U. (K. H. Moss), Coventry
 Prowling, K. D. J. (R. H. Jarritt), Bristol
 Pulling, S. A. C. (D. H. Ortmans), London
 Purcell, P. J. (H. G. George), Cardiff

Quested, R. J. (R. G. O. Rew), Horsham

Rahman, S. (D. H. Hodkin), London
 Rainey, G. J. H. (A. S. Maddison), Birmingham
 Rajan, D. G. (R. Francis), London
 Randag, A. G. (M. R. G. Cory-Wright), London
 Raphael, D. H. G. (M. St A. Moore), London
 Ratnayake, S. (P. J. Y. Jehring), London
 Rattray, J. S. (J. L. Stevenson), London
 Rawse, J. M. (P. C. Cardno), Bradford
 Ray, T. (R. W. C. Dunn), Birmingham
 Record, A. (E. R. Nicholson), London
 Reddy, J. G. (J. S. Pollen), London

Rees, J. B. (A. G. B. Gunn), London
 Reeve, J. W. (E. H. King), Birmingham
 Reveres, M. B. (J. M. Walker), London
 *Reynolds, L. F. (A. T. How), London
 *Richardson, J. (J. G. Holcroft), Bacup
 Richardson, M. A. (J. D. Liggatt), London
 Richardson, P. (N. Green), Sudbury
 Riches, M. J. (G. A. Riches), Norwich
 Richings, A. K. (W. G. Miller), Newcastle upon Tyne
 Ridsdale, C. H. (R. G. B. Booth), Southampton
 Riley, J. R. (R. S. Longcroft), London
 Ringrose, N. J. C. (E. D. Macmillan), London
 Roach, G. L. (S. C. Mallett), Birmingham
 Roberts, A. J. (L. H. Davies), London
 Roberts, C. J. (J. R. Baker), London
 Roberts, D. (H. C. Mounsey), Liverpool
 Roberts, J. A. (B. E. Basden), London
 Roberts, R. T. H. (S. W. Percival), London
 Robinson, B. (T. Davies), Bridgend
 Robinson, G. N. (W. E. Roe), Newport, Mon
 Robinson, G. P. (M. A. Wren), Southend-on-Sea
 Rogers, M. J. (J. B. Steed), Newport, I.W.
 Rose, R. D. (S. E. Moss), East Molesey
 Ross, S. H. (L. Lavy), London
 Rosser, T. D. B. (W. G. Jones), Llanelli
 Rudge, B. A. (P. J. Garland), Birmingham
 Rudge, S. B. (E. J. R. May), London
 Rushton, R. F. (J. M. Gilliat), Manchester
 Russell, H. B. (M. S. Josephs), London
 Russell-Davis, N. G. A. (H. W. Bagge), London
 Ryalls, D. (N. D. Taylor), Sheffield

Sackman, A. (H. Shindler), London
 Sakhuja, H. (C. A. Smith), London
 Salamat, S. S. (B. E. Basden), London
 Salt, G. K. (J. D. M. Corbett), Chester
 Salter, J. A. (Miss), (D. H. Dunn), Exeter
 Sampson, T. H. M. (J. K. Robinson), Workington
 Samuda, K. W. (W. S. Samuda), Worcester Park
 Saunders, C. (W. D. Williams), Great Malvern
 Sawyer, J. L. (H. J. Cotterill), Derby
 Scott, A. A. L. (J. D. Sadler), Macclesfield
 Scott, H. A. (W. J. L. Clarke), London
 Scott, P. S. (J. W. Skelsey), London
 Scrutton, H. G. (C. G. W. Blathwayt), Bristol
 Seaman, M. J. (D. Armitage), Pontefract
 Seddon, R. J. (R. B. Jones), Colwyn Bay
 Sela, O. T. K. (L. I. Finn), London
 Sennett, B. R. (A. N. Bass), London
 Seyler, I. G. (E. J. Woodhams), London
 *Sharpe, G. W. (C. D. Smith), London
 Sharrock, D. H. (E. Hodgkinson), Accrington
 Sharvatt, J. (C. E. M. Emmerson), London
 Shaw, J. L. (A. B. Ramsden), Aylesbury
 Shaw, T. R. (C. G. Johnston), London
 Shaya, S. (S. Sharpe), London
 Sheikh, M. I. (P. H. Wayne), London
 Sheikh, M. J. (P. F. M. King), London
 Sheikh, M. J. (H. Cohen), London
 Sheppeck, A. J. (W. H. Hall), Hull
 Shirley, M. J. (W. R. Young), Canterbury
 Short, W. L. (L. H. Owen), Manchester
 Shotter, P. R. S. (N. B. Hayman), London
 Siddiqui, S. (L. D. Morse), London
 Sidgwick, C. (T. J. W. Evans), Stockton-on-Tees
 Silk, D. J. (R. W. C. Dunn), Birmingham
 Sivayogan, S. (H. W. Wilson), London
 Slatford, T. K. (C. H. Jefferson), Scunthorpe
 Slobom, D. L. (T. E. Entwistle), Liverpool
 Smales, T. F. K. (J. Fairhurst), Wigan
 Smith, A. (N. W. Peeling), Manchester
 Smith, A. F. (J. A. Tuffin), Brighton
 Smith, B. D. (E. Barker), Huddersfield
 Smith, B. F. (H. G. Monson), London
 Smith, D. H. (G. E. Lamb), Leeds
 Smith, D. T. (T. Bourne), Burton-upon-Trent
 Smith, G. (L. G. Davies), Liverpool
 Smith, G. F. (W. C. Peatey), High Wycombe
 Smith, G. H. (S. R. Herrick), Leicester
 Smith, S. V. (Miss), (A. S. Hill), Coventry
 Smith, T. A. (R. J. D. Thompson), Stony Stratford
 Smith, T. H. (C. M. Powell), London
 Snow, A. (D. Winter), London
 Snow, P. W. (G. E. Richards), London
 Snowden, J. B. (W. J. Gilbert), St Albans

* See also Certificate of Merit above.

Sockett, G. W. T. (E. K. Wright), London
 Solomon, E. S. E. (G. Selby), London
 Solomon, H. M. (C. H. Tyson), Brighton
 Sotiris, R. L. (F. A. H. Skinner), London
 Southgate, I. (G. C. Wilkinson), Middlesbrough
 Spencer, R. B. (W. G. Payne), London
 Squires, J. W. (C. G. Pile), St Helier, C.I.
 Stainer, B. M. (K. H. Rich), St Annes on the Sea
 Stamp, E. G. M. (R. P. Winter), Newcastle upon Tyne
 Stanley, M. P. (W. W. Bigg), London
 Stanley, W. M. (J. S. Weyman), London
 Stedman, J. R. (R. G. Pegler), London
 *Stein, R. J. B. (W. T. Meigh), London
 Stevens, D. (G. Stoughton-Harris), London
 Stevens, M. J. P. (L. L. Moore), London
 Stevenson, C. B. (C. S. Goddard), London
 Stevenson, P. H. (J. W. Hardy), Nottingham
 Stickland, W. M. (Miss), (J. Nobbs), New Milton
 Stocks, F. W. R. (Sir Harold Howitt), London
 Stockton, J. W. B. (T. S. Raw), Darlington
 Stoneham, R. B. A. (S. H. Smith), London
 Storey, J. C. (T. Bedford), Leeds
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 Willson, G. (J. L. Wells), Kettering
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* See also Certificate of Merit above.

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 Wylie, P. (M. J. Kirby), Coventry

Yaxley, M. (E. Dutton), Chester
 Yeung, W. C.-Y. (J. Altman), London
 Young, D. J. (L. J. W. Gould), London
 Young, P. J. (H. M. Pritchard), Birmingham
 Youngs, G. A. (G. C. Wood), March
 Youngs, J. R. (R. E. Coates), London

944 Candidates passed**1,012 Candidates failed**

* See also Certificate of Merit above.

PRELIMINARY EXAMINATION*Held on May 15th, 16th, 17th and 18th**First in Order of Merit and the Institute Prize**Gimson, David Anthony, Eastbourne.***Full List of Names of Successful Candidates****(In alphabetical order)**

Abbott, N., Stockport
 Armand Smith, C. W., Hove

Bailey, B. J., London
 Balogun, J. A., London
 Bell, G., Sheffield
 Breach, C. A., Fulmer
 Brooks, C. V., Hayling Island
 Brown, A., Hull
 Brown, P. T., Manchester
 Burah, T. M., London
 Burke, I. D. H., Liverpool

Caldwell, J. E. M., Beckenham
 Coe, R. I., Romford
 Colson, D. J., London
 Curry, F., Preston

Dale, N. M., Beckenham
 Dare, A. G., Brighton
 David, G. E. V. (Miss), Hove
 Dellar, R., Manchester
 Duro-Emanuel, O. G., London

Gimson, D. A., Eastbourne
 Goodall, C. R., Stockport
 Grugeon, D. H., Bromley

Hadjiioannou Anthimou, A., London

Hetherington, J. B., Preston
 Hetherington, S., Leeds
 Holman, A. F. N. M., Mousehole
 Hyam, G. S. J., Petts Wood

Jones, D. A., Bolton

Kettel, R. S., Sutton Coldfield
 Kodagoda, B. H., London

Lambert, The Hon. G., Crediton
 Leatherland, K. (Miss), Newcastle upon Tyne
 Levings, C. J., Manchester

Macdonald, D. A., Bromley
 Malone, P. B., London
 Manning, A. E., Bidford-on-Avon
 Matson, M. J., Horley
 Matthews, T. G., South Shields
 Middleton, D. E., Worcester Park
 Miller, D. J., Sutton
 Montgomery, J. A., Wantage
 Moore, A. A., Dagenham

N'jie, A., London
 Norman, J. A. (Miss), Walton on Thames

O'Gorman, J. J., London

Patel, C. J., London
 Peries, B. R., London
 Powell, R. C. P., Cardiff

Richards, D. C., Wolverhampton
 Rogers, F. J. R. S., London
 Rotherham, R. F., Brixham
 Round, B. C., Dudley

Salts, D. R., Preston
 Scott, W. R., Richmond, Surrey
 Shah, S. B., London
 Shohet, P. D., Manchester
 Stephens, S. N., Nottingham

Talabi, S. O., Bradford
 Thompson, J. M., London
 Tobgian, A., London
 Todd, P., Liverpool
 Turner, C. W., Orpington

Walker, B. E., Halifax
 Walker, G. R., London
 Walton, I. W., Sale
 Warburton, F., Manchester
 Weeks, A. J., Bletchingley
 Wikramanayake, E. B., London
 Wootton, W. A., Manchester

Yemm, A. W., Blackpool

71 Candidates passed**144 Candidates failed****Summary of Results**

					<i>Final</i>	<i>Intermediate</i>	<i>Preliminary</i>	<i>Total</i>
Candidates Successful	693	944	71	1,708
Candidates Failed	805	1,012	144	1,961
Candidates Sat	1,498	1,956	215	3,669

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EXAMINATIONS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS

(In Voluntary Liquidation)

The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants of Scotland and The Institute of Chartered Accountants in Ireland, in accordance with the schemes of integration with the Society of Incorporated Accountants (in voluntary liquidation) conducted the Final Examination of the Society in May 1961.

FINAL EXAMINATION

(Names of Successful Candidates)

1. Candidates for membership of The Institute of Chartered Accountants in England and Wales

Aslin, J. R., Southampton	Kirtley, G. (F. G. Hill), West Hartlepool
Banfield, J. C. (I. P. G. Ray), Bristol	Lacey, D. O., London
Beckett, A. P. (A. N. Moore), Birmingham	Lawrence, W. J., London
Beresford, C. (P. F. Pierce), Accrington	Lawson, K., Hoddesdon
Bird, R. H., Newcastle upon Tyne	Limburg, M. D. (H. Shindler), London
Bishop, R. E. (E. M. Lomax), London	Morris, R. (C. L. Powell), Swansea
Blenkinsop, B. T., Manchester	Newbury, C. A. E. (F. C. Stoneham), London
Bougourd, W. F., Guernsey	Noye, N. C., London
Bradley, G. H. (formerly with G. J. Simmons, deceased), Wolverhampton	Ogunmokun, A., Lagos
Bristow, K. G., London	Palin, A., Liverpool
Bullivant, F., Grimsby	Partridge, J. F., Birmingham
Butler, K. E., Nottingham	Pemberton, J., Leeds
Byford, J. A. (G. H. Jackson), Sutton	Perkin, J., Leeds
Clough, F. (G. Jowett), Manchester	Pharo, G. W. L., London
Coates, T. G., London	Pont, L. A., London
Cobb, P., Middlesbrough	Potter, R. A., London
Cole, R. W. T. (C. C. Akers), West Hartlepool	Rawlinson, T. (J. T. Hibbs), Lincoln
Corbett, A. R., London	Reeves, D. S., London
Cundle, A. E., Darlington	Reynolds, A. R., London
Daburn, G. (formerly with J. Hopkins, deceased), Liverpool	Rouse, I. R., (D. C. Morgan) London
Dakin, T. J. (F. Haughton), Bath	Royce-Dexter, B. (J. D. M. Ellis), Pontefract
Dobson, F., Manchester	Scammell, S. T., Chichester
Felton, A. (P. A. Lewis), Manchester	Scott, E. L., London
Ferguson, S. A., Manchester	Shotton, N. B., London
Garratt, G. S. (L. G. Fetzer), Newcastle, Staffs	Siddall, K. F., Bradford
Gill, F. D. (H. T. Millman), Leicester	Smart, B. T. (T. H. Sanders), Wellingborough
Gillett, D. J. (E. Bates), Leicester	Smith, A. (J. Moss), Manchester
Green, M. (G. W. A. Gray), London	Smith, P. H., Sheffield
Greenway, R. A., London	Spain, W. G., Sunderland
Greggs, J. W., Liverpool	Spiro, L., London
Hanna, J. P. R., London	Thirsk, B. E., Weston-super-Mare
Harley, K. (D. McMichael), Leeds	Tingley, A. P., Birmingham
Hart, L. F. (W. I. Robins), London	Todd, C. N. (J. F. Chapman), West Hartlepool
Hughes, J. (formerly with S. Kent, deceased), Shrewsbury	Towers, B. (J. A. Hartley), Leeds
Hulmes, D. (H. Rogers), Manchester	Turner, D. E., London
Ide, N. S. (C. E. Thurlow), London	Upshall, B. P. (L. A. Pollard), Bournemouth
Johnson, F. C. (C. S. G. Kealey), London	Waite, P., Bradford
Jones, K. (R. Lindley), Bradford	Williams, P. R. (H. C. Smith), Leominster
Jowett, K., Darlington	Willis, R. E. (H. L. Brown), London
Jukes, W. D. (J. Sloan), Liverpool	Winkler, J. L., (E. Portlock) London
	Wood, R. K. (A. F. Dawes), Birmingham

2. Candidate for membership of The Institute of Chartered Accountants of Scotland

Lawson, T. E. P. (James Murray & Co), Cupar

3. Candidates for membership of The Institute of Chartered Accountants in Ireland

Brett, P.R. (V. C. J. Crowley), Dublin	McConnell, K. S. (J. Love), Dublin
Clarke, D. L., Belfast	O'Connell, E. D., Cork
Garland, P. G., Dublin	Raleigh, J. J., Mullingar
Hayden, E. D., Dublin	Roe, W. A. (C. N. Baker), Waterford
McAuley, E., Belfast	Vance, S. F., Belfast

Summary of Results

	Passed	Failed	Total	Completing Examination
Parts I and II together	3	2	5	3
Part I only	*14	11	25	2
Part II only	87	33	120	87

* Includes one candidate who sat for both Parts of the Examination and passed in Part I only.

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New Approach to Productive Efficiency

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INCREASED productivity' is a term which has been much used since 1945. It has been used so hard that it may now fail to fire anyone's imagination and is in danger of becoming mere cant, expressing either pious hope or a self-righteous reason on the part of employers for not granting wage and salary increases.

In fact, productivity improves in the United Kingdom a little year by year - though not so quickly as in some other countries - while industrial relations, at the most optimistic estimate, get no worse. So the country staggers on through an economic mire: every few years progress is checked by a summer crisis, while in the intervening periods of consumer goods boom we are assured that we live in a fine expanding economy. But this summer there is a crisis with a difference because of the Government's decision to start negotiations for entry into the Common Market. As a result there is more talk than usual about relative productive efficiencies, and individual industries are preparing themselves for testing in a competitive fire which may be hotter and more searching than anything tried before. Increased productivity is again the call to factories, mines and industrial enterprises of all kinds, and some commentators have already regretted the failure of the Government to invoke a '1940-type' emergency programme to cure the country's economic ills.

One Thursday morning in July, *The Times* devoted its first leading article to a forthright call for better leadership from British management and it is to be hoped that what was then said made some top people feel thoroughly uncomfortable. The implication of the article was that the nation's economic plight was due more to the failure of management to lead, than to the refusal of wage-earners to do an honest day's work. Many accountants will recognize the truth of this implication, but they and others may have few ideas as to how a new quality of leadership can be developed. Leadership is a fine abstract quality, but how do you get it if it does not come naturally? Is it not, perhaps, a question of education and training, so that we must wait for careful selection and training to produce a new and enlightened generation of managers bred more to lead than to boss? Or are the managers the right people, but their methods only wrong?

This brings us back again to the problem of how to set a course for increasing productivity rather faster than it has done in the past. Yet we seem already to have tried every permutation of exhortation, threat and bribe with scant success. It might seem

that all that remains to try is the rigidly planned economy of the Communist *bloc*, which is plainly unacceptable in a free society. But this may not be the only alternative; and worth considering very seriously is a new theory propounded by Dr ELLIOTT JAKUES in a recent book.¹

Dr JAKUES starts from the principle of distinguishing levels of responsibility according to the amount of discretion given to individual employees. This theory – which has been called the ‘time-span of discretion’ – has been fairly fully written up in the past five years and has attracted some attention in a narrow circle. It is, admittedly, both slightly theoretical and a little arbitrary, but at the least it gives some basis for distinguishing rationally the work content of one job from that of another. What is new to the theory as now propounded is that there exist intuitively perceived standards of payment for each job as defined by time-span analysis, and also, intuitively perceived progressions in the equitable true earnings of individuals as their capacity for work develops during their working lives.

Baldly stated this sounds improbable, theoretical and of no practical importance. But Dr JAKUES’s theory is not pure theory as it stems from analysing and studying the actual earning progression, after eliminating cost-of-living adjustments, of 250 employees from five British companies earning between £8 a week and £4,000 per annum. These progressions have been plotted graphically to show probable progression trends for employees at all levels of current earnings. The resulting curves have then been related to discretionary content of work to show earnings and capacity progressions of normal employees during their working lives.

The progression curves have already been subjected to three independent forms of check: first, by asking selected employees to state in confidence what they expect to be earning at some future date and thereby confirming the intuitively known shape of the earnings progression curves, since the answers received are found always to fall on or near the predetermined lines; secondly, by preparing similar curves from independent information collected from within

seven companies in the U.S.A. and finding the curves to be the same; and thirdly, by applying the curves in a British company and noting the readiness of employees to accept them as accurate measures of equitable earnings progressions.

If, therefore, there are these intuitively perceived forms of payment – true rates for the job, rather than what the particular market will bear, or scarcity values, or special effort values, or any other rates – it may follow, as Dr JAKUES suggests, that man, whether male or female, unskilled, skilled, supervisory or managerial, does the best work when his capacity for work is being fully used and he is receiving the right payment for the job that he is doing. Each individual is thought to have a capacity up to which he or she wishes to work and, apart from short spurts or special efforts, no amount of incentive can increase this capacity. In fact, this approach has already been shown to work in trial conditions alongside the common failure of the normal bargaining, striking, arbitrating and incentive methods of arriving at wage and salary payments.

If wage and salary payments can be removed from the area of controversy and can be based firmly on equity, then there is immediate scope for management to rebuild its leadership on firm foundations, with ‘we’ and ‘they’ falling out of the picture and personnel matters becoming truly ‘human’ and being concerned primarily with fitting the right people to the right jobs.

Dr JAKUES offers a way to increased productivity: equity in payment, work satisfaction, a new concept of management leadership and peaceful labour relations without inflation or unemployment. He may seem to offer too much but any one of these things is immensely valuable. Accountants are often in a position to talk to management on all of these matters, and such is the profession and its size that its influence on the industrial scene can be very great.

On these grounds, accountants should study Dr JAKUES’s theory which is certainly new, undoubtedly difficult and unfortunately described in a language which is, to say the least, not pure Gowers. But it offers a way out of many of the country’s difficulties, which should be studied very carefully from the Government and its ‘Three Wise Men’ downwards. Moreover the accountancy profession itself can probably contribute much to the study.

¹ *Equitable Payment – A General Theory of Work, Differential Payment, and Individual Progress*, by Elliott Jaques, M.A., M.D., PH.D. (Heinemann Educational Books Ltd, London, 35s.)

Back Duty after Death

PROBABLY most back duty cases start because a taxpayer proves to have more worldly wealth than is compatible with the income disclosed by his income tax returns. There is no more potent discloser of worldly wealth than an estate duty affidavit – a document in which the taxpayer cannot figure except in circumstances which emphasize the cliché that you cannot take it with you. Although the body is beyond the reach of the Inland Revenue, the wealth is not. However, the rules which govern the amount which can be collected from a deceased person's estate on account of the inadequacy of his returns are different in several respects from the normal rules governing living taxpayers. Our review, on another page, of a recently published book indicates that the differences are not universally understood.

Back duty settlements comprise two main elements: assessed tax, and penalties; to which latter may now be added the interest imposed by Section 58 of the Finance Act, 1960. A deceased person's estate is treated much more leniently in relation to the assessment of duty than in relation to penalties.

One starts with Section 365 (4) of the Income Tax Act, 1952, which authorizes the making of assessments on a deceased person's personal representatives in respect of income which arose or accrued to him before his death. The subsection is expressed to apply only where the person dies 'without having delivered a return of *all* his profits or gains chargeable to tax with a view to an assessment thereon in due course'. Thus it is not enough for the Revenue merely to show that the deceased has been undercharged – apart from assessment on personal representatives in relation to the 'commencing and cessation' and other special provisions. The subsection is also expressed to be subject to Section 47, the first subsection of which permits the making of assessments within six years after the end of the tax year to which they relate.

A proviso to Section 47 (1) permits an indefinite extension in the case of fraud or wilful default, but is confined to assessments on the taxpayer himself. Moreover subsection (2) requires that

assessments on a deceased person's income must in any case be made before the end of the third complete assessment year after the death. Section 53 of the Finance Act, 1960, has partially abrogated the normal six-year time limit by authorizing assessments for years ending not earlier than six years before the death. However, the assessment must still be made before the end of the third complete assessment year after the death. Furthermore, Section 53 can be invoked only for making good a loss of tax attributable to the fraud, wilful default, or neglect of the deceased person himself, not of some person who acted on his behalf. The 'leapfrogging' provisions of Section 51 which apply to the living have no application to the dead. Assessments made for the purpose of recovering tax which has been lost through the fraud, wilful default or neglect of any person carry 3 per cent interest: thus, no assessment no interest.

Before 1934 the maxim *actio personalis moritur cum persona* completely protected a deceased person's estate from liability for penalties incurred during his life. The Law Reform (Miscellaneous Provisions) Act, 1934, perhaps inadvertently, made it possible for the Inland Revenue to sue the personal representatives (*Attorney-General v. Canter* ([1939] 17 A.T.C. 488)), but only in England; not in Scotland or Northern Ireland. The original time limit for proceedings was six years after the penalty was incurred. This was extended in 1942, in cases of fraud or wilful default, but not so as to affect deceased persons (Income Tax Act, 1952, Section 501 (3)).

The fact that the 1934 Act probably affected income tax only inadvertently, perhaps explains the reason for passing Section 56 (5) of the Finance Act, 1960, which now expressly authorizes the commencement or continuance of penalty proceedings against personal representatives where the person incurring the penalty has died. The subsection preserves the existing time limit, which of course is six years.

Although it is not a tactic to be recommended, it will be seen that a delinquent taxpayer's death can certainly improve his position *vis-à-vis* the Inland Revenue Enquiry Branch.

Estate Companies

LIMITED SCOPE FOR TAX SAVINGS

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THE new look for surtax opens fresh vistas for those interested in converting investment income into earned income. The type of operation most favoured by property owners involves the transfer of land or buildings to a company and the distribution of the greater part of the annual income in the form of remuneration.

Serious Obstacles

There are, however, serious obstacles to the success of such a scheme, viewed from the tax-saving angle (estate duty is not considered in this article). The principal difficulty arises from the fact that it is not possible to forecast with certainty the precise impact of income tax on the newly-formed company. Such a company would be an investment holding company of the type considered in Section 425 of the Income Tax Act, 1952. Its income would normally have borne deduction of tax at source, probably in the form of Schedule A deductions from rent, and the elimination of the tax burden would depend on a successful claim to repayment in respect of expenses. The stumbling-block here lies in the provision which denies repayment in respect of those expenses which are admissible in maintenance claims under Section 101. It may help to clarify matters if the problems which arise are considered in the context of the following example.

Example I

A single business man has an income which comprises director's fees from a trading company of £2,572 and rents £2,428 derived from properties let on full repairing leases. His tax position for 1961-62 is as follows:

Director's fees	£	2,572
Less Earned income relief, 2/9ths		572
		<u>2,000</u>
Rents		2,428
		<u>4,428</u>
Less Relief for National Insurance contributions		18
		<u>4,410</u>
Total income for surtax purposes		4,410
Less Personal allowance		140
		<u>£4,270</u>

Income tax payable:	£	s	d
£360 at reduced rates	84	0	0
3,910 at standard rate 7s 9d	1,515	2	6
	<u>£4,270</u>		<u>£1,599 2 6</u>
Surtax payable	£	s	d
£2,000 at Nil	—		
500 at 2s	50	0	0
500 at 2s 6d	62	10	0
1,000 at 3s 6d	175	0	0
410 at 4s 6d	92	5	0
	<u>£4,410</u>		<u>£379 15 0</u>

The maximum savings which might theoretically be achieved by converting the rental income into earned income are measured as follows:

Income tax:	£	s	d
Earned income relief:			
£1,433 at 2/9ths =	318		
995 at 1/9th =	111		
	<u>£2,428</u>		<u>£429 at 7s 9d 166 4 9</u>
Surtax:	£		
Earned income relief	429		
Additional relief per 1961 Budget	1,999		
	<u>£2,428</u>		
(Surtax liability extinguished)		379	15 0
		<u>£545 19 9</u>	

The interposition of a company would lead to the achievement of these savings only if the whole of the income were paid out as remuneration and income tax recovered under Section 425 on that amount. As indicated above, however, the proportion of director's remuneration admissible in a Section 425 claim would depend on the extent to which any part of it fell to be dealt with in a maintenance claim. If agents are employed to collect the rents and to supervise the property generally, it might be possible to contend that no part of the director's remuneration related to the management of the property. Nevertheless, having regard to the decision in *Copeman v. William Flood & Sons Ltd* (19 A.T.C. 521; 24 T.C. 53) it does not follow that the whole of the fees legally paid to the directors under the Companies Act in accordance with resolutions of the board and of the members would automatically qualify for tax relief. It would be necessary to justify the level of the remuneration

claimed by reference to the scale of fees that would require to be paid to an independent director, that is, one not interested in the company by virtue of his shareholdings or family connections. In the case of a company managed by agents and having comparatively few properties, the duties might well be limited to attendance at board meetings where finance and matters of investment policy were discussed and routine matters attended to, such as the authorization of the use of the company's seal. It should be emphasized that consideration of matters of policy represents an element of the management of the company and not of the individual properties, so that examination of the profitability of existing investments would represent a feature of company management in accordance with the interpretation laid down in *Sun Life Assurance Society v. Davidson* (36 A.T.C. 152; 37 T.C. 330). The following passage from the judgment of Lord Reid is illuminating:

'Looking to the purpose and content of the section it appears to me that the phrase has a fairly wide meaning, so that, for example, the expenses of investigation and consideration whether to pay out money either in settlement of a claim or in acquisition of an investment must be held to be expenses of management and the collocation of the words "(including commissions)" shows that a sum can be an expense of management whether the work in question is done by the company's staff or done by someone else on a commission basis and it must follow that if work of an appropriate kind is done for a fixed fee, that fee may also be an expense of management.'

Commissioners' Decision

The possibilities under Section 425 would be enhanced if the position of secretary as well as membership of the board were retained in the family. In that event there would be scope for claiming an enhanced level of remuneration both by reference to the time occupied in maintaining the necessary records and the responsibility imposed on the holder of that office by the Companies Act. The statutory responsibilities of directors and secretary, coupled with those due to third parties where outside finance has been obtained, as well as those due to ordinary creditors and shareholders, suggest that a substantial scale of remuneration would be likely to prove acceptable to the Commissioners who, on any appeal, have the ultimate say in the matter.

In viewing the question as to what level of remuneration is allowable and by whom that is to be decided, it seems appropriate to adopt

the words of Lord Hanworth in *Worsley Brewery Co Ltd v. C.I.R.* (11 A.T.C. 340; 17 T.C. 349):

'This is just one of those matters where one is entitled to rely upon and to expect assistance from the Commissioners, who, as business men, are more competent than a Court of law to determine what is the proper method of ascertaining an ordinary trading account.'

It is perhaps no consolation to reflect that the decision made by the Commissioners, so final in character, cannot be forecast, nor is it subject to review. The remarks of Viscount Sumner in relation to the function of the Commissioners as expressed in *Levene v. C.I.R.* (7 A.T.C. 59; 13 T.C. 486) are apt:

'The tribunal thus provided is neither bound by the findings of other similar tribunals in other cases nor is it open to review, so long as it commits no palpable error of law, and the Legislature practically transfers to it the function of imposing taxes on individuals, since it empowers them in terms so general that no one can be certainly advised in advance whether he must pay or can escape payment.'

Taxpayers' Freedom

At the same time it seems appropriate to quote also the following passage from the same judgment:

'It is trite law that His Majesty's subjects are free, if they can, to make their own arrangements so that their cases may fall outside the scope of the taxing Acts. They incur no legal penalties and, strictly speaking, no moral censure if, having considered the lines drawn by the Legislature for the imposition of taxes, they make it their business to walk outside them.'

It follows that in reviewing the example discussed at the outset of this article, the restriction of Section 425 claims by reference to maintenance claims must be recognized. The wiser course is to offer a reasonable restriction when submitting computations to the Inspector. For instance, it appears from the scales of fees laid down by the relevant professional bodies that property management would attract a recurrent commission of between 5 and 10 per cent of the gross rentals, while tenancy changes would be the occasion of further outgoings. In a case concerning a company deriving about £118,000 from its properties (*London & Northern Estates Co Ltd v. Harris* (16 A.T.C. 136; 21 T.C. 197)) it is recorded that the Special Commissioners on appeal allowed one-third of a surveyor's salary in a management expenses claim. However, the total salary of £1,050 represented less than 1 per cent of the rent roll,

while the office and administration expenses generally (apart from director's remuneration of £450) did not exceed 3 per cent.

In the case of a small family company having a relatively static portfolio such as is assumed to form the subject of this example, it is perhaps not unreasonable to propose a restriction of the amount of the director's and secretary's remuneration claimed under Section 425 to, say, four-fifths (although, of course, each case must be judged on its merits).

The company's position on this basis would work out as follows:

Example II

Rents received	£	2,428
Less Income tax deducted at source at standard rate		941
		<u>1,487</u>
Less Director's remuneration	2,140	
Audit fee	17	
	<u>2,157</u>	
Less Income tax recoverable under Section 425:	£	
Audit fee	17	
4/5ths × £2,140	1,712	
	<u>£1,729 at 7s 9d</u>	670
		<u>1,487</u>

Nil

The tax borne by the proprietor on the £2,140 received by him would be:

Income tax:	£	829
£2,140 at standard rate		
Less Earned income relief:		
£		
1,433 at 2/9ths =	318	
707 at 1/9th =	78	
	<u>£2,140</u>	<u>£396 at 7s 9d</u>
		153

(Surtax nil) £676

The proprietor's comparative financial circumstances are shown by the following table:

	Before formation of company	After formation of company
Rents or remuneration	£ 2,428	£ 2,140
Less Income tax	941	676
	<u>1,487</u>	<u>1,464</u>
Less Surtax	380	—
	<u>£1,107</u>	<u>£1,464</u>

The savings thus indicated would be markedly greater in the case of a married man who was in a position to channel some of the fees to his wife, thus attracting additional personal allowance, and reduced rate reliefs. The actual savings

would, of course, vary with individual circumstances but it is instructive to note that even if the level of remuneration ranking for relief in a management expenses claim were as low as one-fifth, on the above facts, there would still be a slight tax saving, as the computation below shows:

Example III

COMPANY	£	£
Rents received		2,428
Less Income tax deducted at source at standard rate		941
		<u>1,487</u>
Less Director's remuneration	1,600	
Audit fee	18	
	<u>1,618</u>	
Less Income tax recoverable under Section 425:	£	
Audit fee	18	
1/5th × £1,600	320	
	<u>£338 at 7s 9d</u>	131
		<u>1,487</u>
		<u>Nil</u>
PROPRIETOR	£	£
Remuneration received		1,600
Less Income tax at standard rate	620	
Less Earned income relief:		
£		
1,433 at 2/9ths =	318	
167 at 1/9th =	19	
	<u>£1,600</u>	<u>£337 at 7s 9d</u>
		130
		<u>490</u>
		<u>£1,110</u>

Finally, it may be explained here that in the example considered above it has been assumed that the properties are let on full repairing leases so that the usual statutory repairs allowances are effectively eliminated, through the operation of Section 100 (1) (b) of the Income Tax Act, 1952.

Matter for Parliament

This applies in such a way as to exclude any practical measure of relief for management expenses attributable to a maintenance claim. This unfortunate position seems likely to endure since the Board of Inland Revenue have shown no inclination to adopt the recommendation of the Royal Commission on Taxation that the treatment of management expenses in such cases should be assimilated to that of fire insurance premiums paid by the landlord, for which relief is available by administrative concession. At the same time it is only fair to point out that the same Commission criticized the Board's practice of granting concessions not authorized by Parliament. Until such time as the abolition of Schedule A becomes practical politics, therefore, it seems desirable that the matter should receive Parliamentary attention.

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

SOUTH AFRICA

Company Taxation

UNDER the South African Income Tax Act, 1961, non-resident shareholders' tax remains at 7½ per cent, but changes have been made in the methods of assessment. Local private companies which were previously assessed under the apportionment system will now pay tax on dividends distributed since June 30th, 1960. Certain exemptions have been granted, including provisions to avoid double taxation of profits already taxed under the apportionment system.

The possibility of a public company having its status changed for tax purposes to that of a private company still presents problems. It is now clear, however, that under Section 34 of the main Act such a change cannot be made so as to take effect until after the 1961 tax year, a fact which has been confirmed by the Department of Inland Revenue. But a company whose shares are particularly active may find difficulty in determining from day to day whether the proportion of its equity shares held by the general public exceeds the regulation 50 per cent, even if the term 'general public' had been clearly defined.

International Finance

THE International Monetary Fund has agreed to the sum of £26 million being made available to the Republic over the next twelve months. This will be a welcome addition to the country's gold and foreign exchange reserves, which have been increasing steadily over the past few weeks as a result of the recent import restrictions. It is unlikely, however, to result in the lifting of the ban on transfers of foreign capital. The country has heavy commitments on overseas loan repayments in the next year or so, and will need to pursue a policy of financial stringency for some considerable time yet.

AUSTRALIA

1961 Budget

THE Australian Budget for 1961, introduced by Mr Harold Holt, Federal Treasurer, on August 15th, grants tax concessions amounting to £A12,920,000 (£10,336,000) in a full year. The principal concession, intended to stimulate consumer buying, is a reduction in sales tax on household furniture, furnishings and appliances from 8½ per cent to 2½ per cent. Small concessions are given to transport, industry, primary producers, and mining companies, while the protective margin on petroleum products is removed by reducing the Customs Duty on motor spirit by ¾d a gallon, and increasing the

Excise Duty by ¼d. No remission of the higher rates of personal and company taxation imposed last year has been made.

In the social services, however, old age, invalid and widows' pensions are increased for the second successive year by 5s a week, thus bringing the old age pension up to £5 5s a week. In addition, unemployment and sickness payments are increased by a minimum of 10s a week.

Announcing various measures to strengthen the export drive, such as provision of a first instalment of £A1 million towards construction of roads in Northern Australia to facilitate transport of livestock, Mr Holt expressed the view that the Australian economy was basically stronger than it had ever been, the external situation had been greatly improved, and that there was no obvious reason for expecting a fall in private overseas investment. He believed the economy was much closer to price and cost stability than a year ago.

Tax Loopholes to be 'Stopped'

TWO days after the introduction of his 1961 Budget, Mr Holt, the Federal Treasurer, announced that amending legislation was to be introduced to prevent persons from exploiting the present laws to avoid income tax. His announcement coincided with the tabling of the report of the Committee on Taxation, appointed in 1959 to investigate anomalies, inconsistencies, and unnecessary complexities in Australian income tax laws. In the report it was stated that exploitation of the laws in connection with superannuation funds, family partnerships, trusts and leases, was costing the Revenue £A14 million (£11,200,000) a year.

UNITED STATES

Top Hundred Companies

THE hundred largest corporations in the United States in 1960 (excluding financial organizations) are listed in the July issue of the monthly letter of the First National City Bank. In the group were fifty-five manufacturing concerns, twenty-six public utility companies, sixteen railroads and three retail firms.

To qualify for inclusion in the first hundred in 1960, assets had to be at least \$698 million – or more than double the level necessary in 1950. Over that decade twenty new companies joined the list and twenty dropped out. Among the new-comers were twelve manufacturing concerns in the following industries – electronics and business machines, aluminium, chemicals and petroleum. The other eight were public utilities consisting of electric power

concerns, gas pipeline companies and gas distributors. Three companies were included because of mergers and one railroad fell out to be returned later in the decade after a merger with another railroad company.

The growth in assets has been accompanied by a steady increase in the value of assets per worker. The high level of investment per operative was particularly marked in public utilities.

C.P.A. Consultation Service

THE formal plan of the American Institute for a C.P.A. consultation service has been adopted in principle by the New York Society's Board of Directors. Qualified members of the Society will provide the advisory services to members, with the main object of letting them solve problems themselves after the way has been pointed out. There will be no charge for such assistance, but where substantial services are requested a referral basis may be adopted.

'Purchase' or 'Pooling of Interests'?

SOME United States accountants are still concerned about the concept of a 'pooling of interests' by which the combined accounts of companies which amalgamate, whether by out-and-out amalgamation or by a holding and subsidiary company relationship, may, on certain conditions, show the combined retained earnings of the merging companies as retained earnings of the amalgamated concern. Dr Samuel R. Sapienza, C.P.A., Assistant Professor of Accounting at the Wharton School of Finance and Commerce, University of Pennsylvania, cites the case of the American Machine & Foundry Co as evidence of the extent to which the American Institute's *Accounting Research Bulletin No. 48* is being taken as authority for the revolutionary accounting treatment.

For the two years 1957 and 1958 this company accounted on a normal basis for its acquisition of the entire common stocks of two other companies in return for the issue of its own common shares, the two companies continuing as subsidiaries. But in 1959 formal notice was given to the New York Stock Exchange that the transaction would be classified, retroactively, as a pooling of interests. In the books of the holding company the investments in subsidiaries were written down to the net asset values revealed by the subsidiaries' books as at the date of the original transaction, \$3,151,524 being charged to the capital surplus which had been originally credited. On the other hand, the consolidated retained earnings of the combined enterprises were written up by \$963,424 in the consolidated accounts, representing a reversal of the provision made during 1957 and 1958 for depreciation of the excess values attributed on amalgamation to the property, plant and equipment of the subsidiaries, over and above their book values. *Bulletin No. 48*, published in January 1957, the month of the original transaction, was quoted as authority for the change.

Characteristics indicated by the bulletin as justifying the pooling of interests include continuity of original ownership interests, a carrying forward in the joint concern of substantially all the assets of the pooled companies, continuity of management and no new accountability. But Dr Sapienza, in examining various cases of amalgamation, some treated as purchases and some as poolings of interests, can find no clear demarcation between the two groups on any regular basis. *Bulletin No. 48* suggests that the company pooled should receive not less than 5 to 10 per cent of the voting interest in the combined enterprise to justify a pooling of interests, but Dr Sapienza cites a case where the pooled company contributed only .0016 per cent of the net assets and received only .0012 per cent of the common shares. He says that 'there appears to be some pressure being exerted on public accounting firms to record these and other transactions as poolings rather than purchases in order to remove any increase in assets subject to amortization or depreciation that will lead to a reduction in net profit . . .'. This he considers to be the major factor in the change of accounting method, and his decision is not based only on the one case. Thus in the *Ashland Oil* case, \$10,441,910 was transferred in 1952 to retained earnings from a capital surplus set up at the time of amalgamation in 1948, and Dr Sapienza comments that there was no qualification in the auditors' certification as to 'consistent application of generally accepted principles'.

CANADA

Bank Automation

MR GORDON H. COWPERTHWAIT, C.A., in a recent review of bank automation, in *The Canadian Chartered Accountant*, states that, after three years of deliberations, the Canadian Bankers' Association has announced its decision to adopt the magnetic ink character recognition method. With reference to the use of electronic machines he writes of the over-conservatism of some banks which still post accounts twice, once to the statement and once to the ledger card, to prove the accuracy of the operation, even where a machine has built-in checks against error.

In general, he says that Canadian banks have tended to advance towards automation more slowly than in the United States. Since Canadian chartered banks are large, compared with those in the United States, Mr Cowperthwaite asks whether they should not be experimenting and offering encouragement to Canadian manufacturers to develop equipment designed to meet banking needs. He thinks the change-over to magnetic ink techniques will be gradual and should be complete by 1964. For full benefit from automatic techniques, he points out that centralization of clerical work processes will become important so that posting of current accounts, in large population centres, may be done in one location rather than in twenty as at present.

The Problems of a Group upon the Acquisition of Companies – III

by R. O. A. KEEL, F.C.A.

VII. Reconstructions

IN certain cases acquisition arrangements may best be effected by a formal reconstruction. These may be effected through:

- (a) a scheme of arrangement under Sections 206 and 208 of the Companies Act, 1948; or
- (b) Section 287 of the Act.

76. A direct share acquisition has the following advantages over reconstruction:

- (a) each company retains its own identity and name with any goodwill attached to it;
- (b) it is not always necessary to acquire the whole of the share capital and therefore shares which carry either no votes or restricted voting rights may be excluded from the terms of the acquisition.

Section 206, Companies Act, 1948

77. Section 206 is of use where there is to be a wide and often complicated rearrangement of the rights attaching to the capital of the companies involved. Approval of the Court is required. Prior company approval of the scheme is required from a majority in number representing three-fourths in value of the members. A compromise or scheme of arrangement may become necessary as part of a scheme of reconstruction. Section 208 provides that where an application is made to the Court under Section 206 and the undertaking or property of a transferor company is to be acquired, the Court may make such sundry arrangements as is deemed appropriate for, *inter alia*, the transfer of such undertaking and property or liabilities; the issue of securities; the dissolution, without winding up, of such a company and provision for any person who dissents from the compromise or arrangement.

Section 287, Companies Act, 1948

78. Section 287 provides, *inter alia*, that where a company is to be wound up voluntarily and its business is to be sold to another company, the liquidator, with the sanction of a special resolution, may receive in compensation for the sale, shares or other like interests in the acquirer for distribution among the members of the acquired.

79. Typical schemes under Section 287 are the transfer of the undertaking of one company to another, in exchange for shares in the acquiring company:

- (a) Where a company wishes to extend its activities and this demands a change in the objects clause of the memorandum, but such alteration is one which is not permissible under Section 5 of the Act.
- (b) Where an existing company requires further capital, perhaps on account of accumulated losses, and the normal means of raising capital are not considered practical. Often partly paid shares are issued in the acquiring company and these are then subject to call for the provision of new moneys. Under a Section 287 scheme members in the acquired company may of course exercise their right of dissent. It should be remembered that where new capital is issued in a company in the normal course of business, dissentient members are without the recourse accorded under a Section 287 scheme.

VIII. Secretarial Requirements

80. The problems here fall into two categories, that of compliance with various official controls and requirements, and secondly the formal completion processes connected with an acquisition.

Official controls

81. These may be listed as follows:

- (i) The Capital Issues Committee – The Treasury.
- (ii) The Bank of England – Securities Control Section.
- (iii) The Stock Exchange – Regulations.
- (iv) The Registrar of Companies.
- (v) The Stamp Duty Office.

82. *The Capital Issues Committee – The Treasury.* For most practical purposes this channel of control is a thing of the past. However, this Committee, which is concerned with the control of borrowing by the raising of moneys by issues of shares and debentures and the like, is at present still required to approve the timing of issues of securities which are to raise not less than £1 million. It is to be noted

that share for share exchanges and purchases for cash are not subject to this control.

83. *The Bank of England - Securities Control Section.* The main concern of the Bank in these connections is the control of registration of securities for non-resident owners. Permission may be granted upon application to the Bank under the Exchange Control Act, 1947, for the registration of addresses outside the Scheduled Territories, for the issue of new shares and for the transfer of the acquired shares without the declarations which are normally required under the Act. Permission for handling matters without using an authorized depository will also be granted in appropriate circumstances. Application for permission should be made as soon as possible particularly where non-residents are involved as acquirers or as vendors.

84. *The Stock Exchange - Regulations.* Some consideration has already been given to these requirements as they affect the take-over bid. However, it should be made clear that companies with Stock Exchange facilities have responsibilities for acquisitions made outside of the take-over routine. Where a company is acquired whether by take-over or privately, the Stock Exchange can insist on information being published and also circulated to members. Details to be provided will follow those required by the Stock Exchange where a take-over bid is made, i.e. prospectus information. Exceptions are made where the value of the shares acquired or the earnings attributable to them are not material in relation to the net assets or the trading results of the acquiring group respectively. The test of materiality has been stated unofficially at 5 per cent of assets or 10 per cent of profits. Exemption may also be allowed wholly or in part where the acquisition is already a quoted company providing published information. Applications to the Stock Exchange have to be placed through a stockbroker who should be consulted at the very earliest opportunity. Where quotation is required for new shares issued in the deal this may take from three to seven days from the lodgment of the application.

85. *The Registrar of Companies.* Where capital is issued the return of allotments and particulars or a copy of any contracts of acquisition or title have to be filed. (Such contracts may also have to be produced to the Stock Exchange.) Evidence of Capital Issues Committee permission has also to be produced to the Registrar.

86. *The Stamp Duty Office.* If the acquisition involves the transfer of registered shares £2 per cent stamp duty will be payable *ad valorem*. However, the acquisition of at least 90 per cent of the issued share capital of a company by another company formed or having increased its capital for the purpose in exchange for its own shares is a situation in which the saving of stamp duty may be achieved. Section 55 of the Finance Act, 1927, as amended, is the main legislation concerned. Stamp duty is

saved on the instrument of transfer for the acquired shares in question as well as the 10s per cent duty on the share capital which the acquiring company uses for the consideration or on the share capital of the acquired company whichever is less. The use of cash or renounceable letters of allotment for the purpose of satisfying more than 10 per cent of the consideration takes the transaction outside the exemption. The acquired shares must, it should be noted, be held by the acquiring company in its beneficial ownership for at least two years after purchase. No such restriction applies to the holding of the shares issued to the old shareholders of the acquired concern but it would apply if the shares were issued to the acquired concern where this took place in exchange for the undertaking.

Formal completion processes

87. This is a subject upon which the expert guidance and advice of a solicitor well versed in company matters should be obtained. However, it is useful to be aware of the documents which will need to be prepared. These will need to be both carefully and accurately considered and comprehensively drafted, and will include the following:

- (a) Letters of agreement for exchange between the parties. These are more usual than the formal contract but a contract on occasions may be found desirable. Points in particular to be covered by such letters of agreement will (as well as the basic matters of what is being purchased, the consideration and the form of payment) include the following subsidiary matters:
 - (i) whether shares are being purchased cum or ex dividend;
 - (ii) warranties as to the accuracy of information given, whether written or verbal;
 - (iii) warranty that there has been no material adverse change in the financial and commercial position of the company being purchased, as from the last presented financial statement;
 - (iv) undertaking to register the purchasers as shareholders and for the reconstitution of the board of directors;
 - (v) the provision of service agreements and group facilities such as pension schemes;
 - (vi) arrangements for the alteration of the memorandum and articles of association;
 - (vii) provision where appropriate for indemnities against assessment on the company of estate duty and surtax. (These are only as good as the people that give them and all appropriate inquiries should be made to establish that the vendors are reputable persons of substance.)
- (b) A letter setting out the opinion of the vendors

as to the maintainable annual profits. This is the basic factor upon which any earnings valuation will be established. It is significant as a statement made in good faith in the light of the circumstances as known by the party providing it. However, its legal force is open to question.

- (c) A formal contract to sell. This is used in the case of a private treaty sale where the consideration is to be wholly or partly by the issue of shares. Such formal contract needs to be filed with the Registrar of Companies. An alternative arrangement which avoids the necessity for the completion and public disclosure by filing of a formal contract, is the purchase of the shares in the acquired concern for cash and the simultaneous subscription with that same cash for the new shares in the acquiring concern. While this arrangement has the advantage of separating the two sides of the transaction and of avoiding unnecessary disclosure of the terms of the agreement it also incurs the necessity to issue new shares for cash. Practice has shown that a cash issue upon acquisition constitutes exceptional circumstances which would probably take such cases out of a recent Stock Exchange pronouncement which frowns upon the issue of equity stock other than to or with the specific approval of the equity shareholders.
- (d) A form of offer and acceptance, where a takeover bid is being made.

88. Board meetings will be held by the acquiring company to deal with the various decisions and formalities connected with acquisition. The board will consider reports presented to it putting forward the proposal to acquire and having made a decision will need to be assured that the necessary formalities are completed.

Where shares are issued in exchange the formalities for allotment and registration are often dealt with by special board committees appointed for that purpose. Certified copies of resolutions of board meetings dealing with such share allotment must be submitted with the application for quotation to the Stock Exchange. The form in which the shares will be issued needs to be considered. On occasions it may be appropriate to issue renounceable allotment letters, or as is the more current practice, renounceable share certificates, so that the vendors may negotiate a part or the whole of the consideration. There should be power to issue this new capital and available unissued shares.

IX. Publicity

89. The amount of space which is devoted to takeover bids and mergers not only in the financial Press but also in the general Press is considerable. Publicity on these matters also extends to Parliamentary reports, Royal Commissions and to broadcasting on

both sound and vision. In addition to what might be called news publicity there may be also display advertisements paid for by the acquiring organization and the circular letter distributed to interested parties.

90. The proper propagation of information is a matter of considerable skill. There is no need to emphasize the necessity of a true and fair statement of fact but a precise and clear presentation with the minimum of unnecessary detail and with a good sense of timing are essentials which will require professional advice. On these questions of presentation, timing, and Press circulation the expert guidance of one of the many first-class Press agents is in my view essential.

91. As I have indicated earlier in this paper the granting of a quotation on a stock exchange brings with it responsibility and this includes (where the stock exchange so directs) the advising of stockholders of material acquisitions. I think it is a good maxim that when in doubt one should always advise members. Some companies in recent months have adopted the habit of sending their members a copy of the actual offer being made. Others provide a summary of the situation and its main implications as they affect the earnings and dividend prospects and the security of the interests of the original members of the company making the acquisition. Circulation to members although substantially effective, may not be thoroughly so and it is always advisable to provide the Press with copies of such documents for publication on the day on which the statement should reach members in the United Kingdom. This question of ensuring that Press announcements coincide with private advice to the member is one which has raised a certain amount of controversy. In my opinion the members are entitled to prior or at least contemporaneous notice where this is humanly possible. In certain instances it may be more effective to advise members through the Press only but this should be the exception rather than the rule.

92. There has been comment in recent months on sharp movements in stock exchange prices prior to the formal notice of the deal, which have given rise to suspicions of leakage of information. Every precaution must be taken to prevent such leakages. The restriction of the number of people with knowledge of the offer or transaction is of prime importance. The inspection of plant and premises of the organization to be acquired, unless this is completed with circumspection, must and does give rise to rumour. Two or more rumours can literally constitute a leak. Should it be apparent that information is abroad then the situation should be squarely faced and an announcement made forthwith.

93. The Stock Exchange in London closes at 3.30 p.m. but there are of course dealings carried out unofficially after hours. Up to April this year it was Stock Exchange practice for announcements of

deals to be released after the Stock Exchange had closed in order that as far as possible information was available generally before the opening of the market on the following day. A new recommendation now brings back the time for release to before 3 p.m. Many of the major daily papers prefer to publish information which is 'news' and this often precludes the release of information for the previous evening's papers.

94. Apart from the release of information to stockholders and the Press there is also the necessity of considering publicity within the acquiring organization. As a matter of good management practice, Press announcements should be sent to the major executives in the acquiring organization who will, if they feel it appropriate, advise other employees likely to be concerned. This information should be timed to arrive with the main executives on the morning of the Press release and should be sent under cover of a personal letter. It is quite wrong to read coldly of what is happening to your organization from the national newspaper alone.

95. The points made in the previous paragraph apply with equal force to the organization being acquired and arrangements should be made either for meetings to be held with staff to explain the deal or, alternatively, for a meeting to be held with selected senior executives who will in turn advise staff. At the same time notices may be displayed or issued. It is most advisable that information should be prompt and timely, and should be a matter of personal communication rather than mere written advice. The organization being acquired may also consider it important to advise its major suppliers and customers of the change where the acquisition is likely to affect, in one way or another, relations between the company and them.

96. The Press are not infallible and the number of times when information released is misquoted and misreported are legion. With this in mind it is necessary to arrange for cuttings of all Press notices to be inspected so that corrections may be dealt with where appropriate. Apart from the checking of errors it is of vital interest to know of the reaction of the Press for this may well provide excellent guidance for the future, on the handling of similar transactions.

97. Further opportunities for publicity on acquisitions may occur subsequent to the time of the deal. In particular I would mention the circulated annual report and the publication of the chairman's review in the national and local Press.

98. What information should be released? In the case of an offer I have no doubt that a copy of the offer should in fact be released to the Press and perhaps sent to the shareholders where such an offer is material to the shareholders. In all other cases where the transaction is material, information should include the following:

- (a) the name and the business of the company being acquired;
- (b) the proportion of the company being acquired
- (c) the price being paid for the business;
- (d) the form of the consideration;
- (e) any special conditions which are being attached to the transaction;

and finally, where considered appropriate, the estimated contribution that the new acquisition will bring to the profits of the acquiring organization.

X. Post-acquisition activities

99. Anticipation of the way in which the new company will operate in co-ordination with the group will be an important consideration during the course of an acquisition. Once the acquisition is complete there are a number of steps which need to be taken.

100. One of the main post-acquisition tasks is to give the new subsidiary the fullest information on the opportunities and possibilities of the group, and to explain how the group may assist the new subsidiary to do its work to better advantage. Information on other group companies and their activities should therefore be provided. While the contact with fellow subsidiaries should not encourage a detraction from the main aims and endeavours of the new subsidiary, it should be aimed to bring a sense of partnership and a general feeling of a sense of community. In other words an understanding that these others are similar firms to the new members and are constituted by like persons to themselves. A spirit of co-operation will encourage mutual help and advice, and assist to build a sense of goodwill and direction in the group organization as a whole.

Management organization

101. With very few exceptions most acquisitions will involve taking on a company which has a management team. In fact many acquisitions are the buying of management to a greater degree than the buying of anything else. However, if deficiencies exist in the team or if the new company is to be particularly closely allied with a special part of the acquiring group, then shortly after acquisition is completed any necessary new appointments should be made.

102. Methods of management communication between the subsidiary and its parent will need to be made clear. What meetings are to be held and where these are to take place and how often; what matters are to be the subject of discussion and decision; and how, to what extent, and for which purposes the subsidiary organization is to have access to the parent company and to other parts of the group. The decisions taken will depend upon the basic policies of the group and the particular nature of the

new subsidiary in relation to the group. An acquisition which brings an entirely new activity to the group and which is of a size which justifies the carrying of a balanced and adequate management team will be a very different proposition to a trading or service company which will in effect operate as an extension of an activity already in the group.

103. The extent of local responsibility will need definition. Such definition will certainly need to cover among other matters those of financial and commercial concern.

104. Responsibilities on financial policy are for the approval of:

- (a) capital expenditure;
- (b) the provision of finance;
- (c) dividend policy.

105. Financial responsibilities need to be co-ordinated with the preparation and approval of plans of operation and budgets of cost. These fall into three main categories:

- (a) budgets for capital expenditure;
- (b) budgets for profit embracing the income and expenditure involved in sales, production and administration;
- (c) budgets for cash and other forms of finance.

106. Policy will require to be established on the methods to be utilized of financing development, whether from retained profits, from short-term and long-term loans (including bank finance and group lending) or from permanent capital in its various classes.

107. What is required at the outset is a clear understanding on all points of when and to what extent the subsidiary needs to obtain approval before taking action.

Accounting records and control

108. Once the lines of communication between the individuals in the subsidiary and the rest of the group have been agreed, it will be necessary to confirm or design appropriate periodic accounting statements for the subsidiary which will enable its management to have proper knowledge of progress and give adequate control over planning and procedures. At the same time such records should suffice to keep the top management of the group advised of the results and progress of its new member. In the Tilling organization the design of appropriate accounts and records is fundamentally the responsibility of the subsidiary; often however it is carried out with the assistance of the accounting section of the headquarters of the group.

109. My own company has three main aims in establishing and maintaining control for accounting purposes:

- (a) Regular, accurate and adequate accounting

information to enable informed action by management.

- (b) A service to be available to general management for advice on the accounting aspects of any business matter.
- (c) Spurs to action through production of budgets, comparisons, and special ratios.

In the Tilling group not all of these are being fulfilled at the present time for all units. It takes time, patience and an understanding of the nature and needs of each individual company and its management for the setting up of the appropriate accounting control. In all cases the accounting control for the operation of the subsidiary is the responsibility of the subsidiary itself. The passing of information to headquarters to allow it to judge progress always takes place through the parent company representative on the subsidiary board. However, the headquarters accounts department is available to advise and help when and where necessary. At all times this department is available to advise headquarters management. Thus all comparison, comment and analysis by headquarters goes to the headquarters representative on the subsidiary and it is his responsibility to comment at the subsidiary board and at the main parent company board.

Group services

110. Many services and facilities may exist within a group which will become available to the new subsidiary. Information will need to be given on these, and steps taken for the new subsidiary to take advantage of them. Frequently, amongst many other items, they will include arrangements for bulk buying and group discounts; group pension schemes; training and research centres and advantageous membership of outside associations. The group may also provide opportunities for the meeting of members at social functions, sporting occasions or through training conferences or discussion groups.

111. The acquisition of companies is on occasion a matter of some anxiety to the professional advisers of acquired firms and to the providers of supplies and services. If the group is decentralized there will be considerable advantage management-wise in leaving the local arrangements undisturbed providing these are efficient and satisfactory to the subsidiary. The problem here is in deciding whether the economic gain (if any) from obtaining services or goods in larger parcels outweighs the advantage of the greater flexibility and manoeuvrability which local arrangements bring to subsidiary management. Apart from the economic aspect local arrangements also underline the autonomy of the subsidiary and give a greater sense of freedom which encourages enterprise and initiative. There is no simple answer to this problem, it must depend to a considerable extent on whether a subsidiary can really operate autonomously and therefore is properly able to justify the cost of a full local organization.

XI. Consolidation of Accounts

112. This indeed is a fertile source of contentious and highly fascinating topics for discussion even if consideration is restricted to acquisition aspects only. Many of the problems which arise cause difficulty due to the lack of time available to deal with them properly when they are presented in the course of consolidation and with this in mind I shall refer to planning and organization for consolidation. The twin devils of pre-acquisition reserves and consolidation goodwill loom large in dealing with acquisition and these also will receive consideration. Finally I will touch upon some special consolidation difficulties upon acquisition.

Planning and organization

113. While commercial advantage will dictate the form and pattern of an acquisition and also its timing, if the accountant, later to be responsible for the consolidation of the new business, has the opportunity he may be able to arrange, without disturbing other factors, that his task is simplified. Examples of such simplification include:

- (a) The formation, where more than one company is being acquired, of a company or a group of companies which will be a convenient accounting unit for consolidation. This will often be advantageous for other purposes too.
- (b) The postponement of the effective date until the first day of the new period, where the acquisition is to take place close to the acquiring group's year-end. This will give more time for proper consideration of problems and will avoid an uncontributive consolidation in the old year.
- (c) The timing of the acquisition date so that it shall coincide with the terminal date of the acquired subsidiary, where this is close, in order that audited balance sheets may be available to provide accurate information for the calculation of the pre-acquisition reserves.

114. Any special implications on consolidating the new acquisition with the group accounts should be explained to and considered by the acquirer. A principal involved in the buying of a substantial company which has operating losses, onerous liabilities or encumbered assets, may well think again on being advised how these disabilities might change the whole outlook of a group's accounts. This is a subsidiary matter in the acquisition process but it can and does have its influence. There have been instances in my experience when such thoughts have suggested the purchase of a substantial and influential but minority holding pending the clearance of an unsatisfactory situation in the acquisition for purely consolidation reasons.

115. A company may be acquired with the thought that it will be a subsidiary but in fact it may not be. Mistakes as to what in a particular instance constitutes a controlling interest do occur and therefore

the fact that the acquisition actually achieves control needs confirmation. Similarly what may have been taken to be a minority interest in the equity may, by reason of it having a majority of the voting power or giving the right to appoint the majority of the directors, be in fact an acquisition of a subsidiary which will need to be consolidated. Again, a business which may initially appear totally divergent in character from its parent, on a second inspection, may not be so very different and thus may not be capable of proper exclusion from full consolidation.

116. A point that has not so far been touched upon in dealing with other aspects in this paper is the value of having a code of principles for the group acquisitions and all matters related to them. Such principles in referring to the consolidation aspects of acquisition will ensure uniformity of treatment, essential for the production of properly constituted and meaningful consolidated accounts of the group. Acquisitions do not always occur at the holding company level and the larger the group the greater the possibility that new subsidiaries will be grandchildren, or even more remote issue. If responsibilities in the group are materially decentralized the form and manner of acquisition occurring up and down a group could well vary substantially. Provided the group's principles of operation are adhered to the allocation of consolidation and investigation work to subsidiary groups of companies can be both time-saving and salutary. The giving of responsibility in this way also brings to these subsidiary groups a closer and more informed outlook on both general and their own special problems of acquisition and consolidation. Co-ordination, discussion of difficult matters, and the interchange of general views should all be effected between the parts of the group organization for the better planning of acquisition.

117. To reduce the year-end work peak and as an aid to swifter completion of consolidated figures for publication, the relevant consolidation figures should be calculated as soon as possible after the acquisition. These figures should also be clarified promptly for internal management purposes, since records of acquisition may frequently be required for reference long before year-end figures are prepared and published. My own company prepares a consolidated profit figure monthly and this demands the early establishment of acquisition dates and a differentiation between pre-acquisition and post-acquisition profits, losses and dividends.

Pre-acquisition reserves - When can they be revenue?

118. Proposals on pre-acquisition reserves were put forward by the Institute to the Jenkins Committee in February 1961. In the submission they are defined as reserves of a subsidiary which were in existence in that company at the date as from which the shares were acquired by the holding company. Specific conditions are suggested under which exceptionally they may be permitted to be treated not as

of a capital nature but as normal revenue reserves. These are broadly:

- (a) Where acquisition is by share exchange, and the right to treat the pre-acquisition reserves as revenue is reserved in the terms of purchase; the right to use as revenue and also the subsequent use as revenue is disclosed in the group accounts and is authorized by specific resolution of the holding company shareholders; and the treatment as revenue is stated on the group accounts by both the directors and the auditors to be in their opinion both true and fair.
- (b) Where rearrangements of shareholdings take place within a group.

119. In a further submission the Institute has proposed that future tax shall, if it is so prescribed in the terms of the deal, be dealt with as a liability. Tillings has, following earlier pronouncements of the Council, consistently recognized the valuable nature of these interest-free funds and has for all purposes classified them as reserves (represented by net assets) in use in the business. This has entailed the segregation of some post-acquisition profits for the reinstatement of the capitalized future tax reserves but this has not been found unduly onerous since it has only involved a re-classification of reserves. This procedure has also had the automatic and desirable effect of writing down any goodwill on acquisition. Perhaps the only satisfactory and permanent solution to this perennial problem is for all taxation on companies to be charged on a current year basis of assessment.

120. The major point which is raised for further consideration as a result of the Institute's submissions on pre-acquisition reserves seems to be the need to establish a clear distinction for consolidation purposes between, on the one hand, a purchase of shares where there is essentially a new proprietorship (say where the consideration is for cash) and on the other, mergers by exchange of shares where there is for all practical purposes no change of ownership at all. The main principle would appear to be broadly that if there is deemed to be no change of proprietorship on a merger of companies then the revenue reserves in the accounts of the acquired concern at the date of acquisition should continue to be treated as revenue reserves in the consolidated accounts of the new group and should be revenue to the parent company if distributed to it by the acquired concern.

121. The American Institute has defined a purchase as a 'business combination of two or more corporations in which an important part of the ownership interests in the acquired corporation or corporations is eliminated or in which other factors requisite to a pooling of interests are not present'. A pooling of interests (a 'merger' in our terminology) is defined for accounting purposes as 'a business combination

of two or more corporations in which the holders of substantially all of the ownership interests ("the equity") in the constituent corporations become the owners of a single corporation which owns the assets and businesses of the constituent corporations, either directly or through one or more subsidiaries, and in which certain other factors are present'. These other factors include the substantial maintenance of the proportionate contributed interests and of the voting rights in relation to those interests. Many of the tests proposed by the Americans are negative in character in that they tend to say when a pooling does not take place. The tendency is towards assuming a change of ownership unless there is very strong and corroborative evidence in support of a maintained situation.

122. Changes in the form of capital or in the structures of the merged companies (to switch to the English idiom) could and might have taken place in the separate firms apart from the merger and the fact that the steps were taken on merger are not conclusive evidence of change of ownership. If part of the merger plan is for the sale or abandonment of large sections of the new organization, or the elimination or major reconstruction of the management this militates against the idea of continuity, the supporting concept for the true merger.

123. If pre-acquisition reserves are to be maintained as distributable a problem will arise where the nominal value of the shares issued in exchange exceeds the nominal value of the shares in the absorbed firms. Such excess could represent pre-acquisition reserves. The treatment of such excess on the consolidated balance sheet will probably have to be by deduction from the aggregate amount of capital. A surplus of the absorbed capital will normally throw up a capital reserve item on the consolidated balance sheet.

Pre-acquisition reserves – The piecemeal acquisition

124. The piecemeal acquisition has been the subject of comment by many instructors in the art of consolidation. I would make the point that since control of a company is at present the usual arbiter of consolidation (so far associated interests are not consolidated) it is more logical not to consolidate undistributed post-acquisition profits relevant to purchases made prior to obtaining control. Capitalizing all reserves relevant to the holding at the date of obtaining control is admittedly conservative but I would submit it is in line with the present accepted basis of consolidation. The position might be different if the earlier purchases took place under an agreed programme to obtain control. In Tillings while it was our policy to acquire minority holdings, today the rule is for controlling interests only. From time to time minority holdings become subsidiaries. In these cases the undistributed profits relevant to the minority interest of Tillings up to the date of

obtaining control have not been accounted for to Tillings' stockholders. Since it is current practice to distribute Tilling dividends from current earnings these prior years' 'profits' are essentially a windfall best dealt with by writing them off to capital reserve. I have on occasions attempted to recapture these intermediate profits but they are curiously awkward to explain in accounts, and with future tax to be capitalized and re-provided out of them in respect of the earlier purchases they have proved to be so elusive as to be non-existent!

Pre-acquisition reserves - Setting up a reserve in the subsidiary

125. Should the pre-acquisition reserves for the group be separately stated by transfer to, say, a special capital reserve in the books of the acquired subsidiary? This may be convenient in simple cases, but where there are other capital reserves, where capital reserves arise subsequently on acquisition by the new subsidiary and where minority interests exist, the convenience may be illusory. Capitalization of reserves and offsetting of losses, reorganization and mergers can in addition all create havoc to the original transfer, as may the need to distribute part or the whole of such funds.

Pre-acquisition losses

126. The existence of pre-acquisition losses raises a number of peculiar points. Though post-acquisition profits may be available for dividends despite past losses this is often (though legally permissible) not considered to be sound financial practice. This will either mean that no dividends will be paid until past losses are recouped from earnings (after tax has been taken into account) or it will point to a reorganization perhaps by way of a reduction of capital to eliminate the losses. The existence of a tax loss at acquisition is a 'contingent asset' dependent upon the earning of taxable future profits. As the tax advantage is obtained a transfer of equivalent amount may be made from the profit and loss account to the credit of goodwill or capital reserve. If for the financial year in which a company is acquired that company makes a loss this might well cover either a pre-acquisition profit and a post-acquisition loss, or vice versa. Where it is material the notional tax liability or tax 'contingent asset' at acquisition should be taken into account.

Consolidation goodwill

127. Any excess of the price paid for a company's shares over the net assets of the company (or alternatively its capital plus reserves) at the date of acquisition as is attributable to the shares purchased may conveniently be referred to as consolidation goodwill. A deficiency involves a consolidation capital reserve. It is usual in view of the special nature of these items in the consolidated balance sheet to keep

them as separate amounts until wholly written off. It is also usual where there are a number of such items to offset them against each other to arrive at a net balance which should then be appropriately described. Since they are in effect adjustments to net asset values in arriving at the price paid for the underlying assets they are not in my view reserves and therefore there is no statutory case for disclosure of movement in them other than such movements as arise from transfers to or from profits, reserves, or provisions.

128. If a purchase has been made on the basis of an 'assets' valuation the surplus or deficiency against balance sheet net asset values at the date of acquisition will reflect probably not only 'goodwill' or its opposite but also variations in individual asset and liability values. The consolidated balance sheet should reflect these changes either through revaluation in the subsidiary accounts or by consolidation adjustments. Consequential adjustments to depreciation may also be required.

129. The Council in a submission made in February 1961 to the Jenkins Committee, proposed that where shares are issued at a premium in exchange for other shares or a business undertaking and as a result a goodwill figure arises, then it should be permissible to apply such premium to write down the shares or the business undertaking and thus the goodwill. Such application would be subject to shareholders' approval and also would have to be disclosed in the accounts. However, the writing down of the asset in the holding company brings up the question as to how one should treat any profit arising on a subsequent sale to the extent that such profit represented the share premium applied in writing down the asset.

Miscellaneous consolidation acquisition points

130. A company acquires the control of the equity of another concern whose assets include items sold previously by the acquirer at a profit and which are valued at cost to the acquired company. Some accountants consider that part of the price paid is in effect a re-possession of the original goods which must then be revalued at the original cost to the acquiring concern by writing back the original profit against the share purchase price. The other view is that all these transactions have taken place at arm's length and such re-acquired goods should continue to be valued in the new group at the higher price. The latter procedure accepts the possibility of having the same sort of goods valued at two different prices in the same consolidated balance sheet. It is however a transitional problem.

131. The sale of a sub-subsidiary in a group by one subsidiary to another where there is a minority in the purchasing subsidiary raises an awkward problem. The group's recorded post-acquisition reserves in the sub-subsidiary may be effectively frozen

by this step since if distributed to the purchasing subsidiary they are capital to the minority although not to the holding company's majority interest. A practical solution is the distribution of such reserves prior to sale.

132. All the shares are acquired in a company with the right to promote a book. At the same time:

- (a) the acquired company buys the film rights, home and overseas book rights, and paper-back rights;
- (b) the film and paper-back rights are sold to third parties; and
- (c) the small balance of the cost of all the rights is reimbursed by the company which owns the shares, in exchange for the remaining book rights.

The shares in the acquired company are thus no longer backed by assets. The book rights acquired are however valuable and will last for some years. The cost of these rights in effect consists of the price paid for them to the promotion company plus the price of the shares in that company. The purchase price of the shares which is wholly goodwill is, it is suggested, most properly dealt with by writing it off year by year together with the cost of the rights *pro rata* with the use of those rights.

133. If an acquisition is made during an accounting year should one consolidate the whole of the profits for the year and then deduct the pre-acquisition element on the face of the accounts, or only include the post-acquisition profits in the year's results? The former has the merit of showing the current earning capacity of the group better. Similarly, should a subsidiary be sold during a year, do the earnings to the date of sale have to be included in a group's results for the year? A sale and a purchase of equal dimensions if dealt with on a gross basis with deductions for the profits earned in the pre-acquisition and post-sale periods could well present a true but 'unfair' view.

XII. Conclusion

134. In a system of free enterprise acquisitions are evidence of change and of development and as such are an indication of healthy and proper activity and growth. Take-over bids have received much of the limelight, but many acquisitions take place quietly. It seems very probable that the pattern that we have seen in recent years will continue.

135. The public through Press and other comment has received a good deal of information on the more sensational aspect of acquisition, the take-over bid. Even publicity, which may sometimes wildly dramatize the picture, can be of benefit, since it arouses anxiety over the occasional malpractice which has and does take place in commercial life.

It is to be hoped that any amending legislation will allow continued flexibility for acquisition and growth. Undue restrictions (to curb offences which while attracting considerable attention are still very infrequent occurrences) might indeed kill the geese that lay the golden eggs instead of endeavouring to keep them in better health.

136. The abandonment of restrictive trade practices is tending to encourage competition. Unless the emphasis shifts more strongly against monopolistic groups through some control of mergers, it is likely that there will be an even greater spate of acquisitions by groups, towards the reduction of this rising tide of competition.

137. One of the criticisms levied at persons who are involved with the acquisition of companies is that thereby they are afforded opportunities for capital gain. It should be better appreciated that such surpluses to the extent that they represent ploughed back company profits are amounts which have already suffered a substantial quota of profits tax, income tax, and on occasion surtax, too. It should also be remembered that estate duty and stamp duty also contribute largely to the Exchequer as tribute on company ownership. It could be that one day we shall be faced, as the Americans are, with a capital gains tax. Let us hope that it may be on realizations with due allowance for all losses.

138. The principle of decentralization of authority and responsibility is one which is gaining ground in the more advanced civilizations of the world. It represents an acknowledgment of the individual and affords opportunity for decision and initiative. I would anticipate that although more companies may come together in groups these groups will tend to be decentralized in form.

139. I have attempted, in discussing many problems of a group upon the acquisition of companies, firstly to set down some of the local knowledge and experience which has been gathered over a number of years spent in what I can only describe as a most fascinating organization and secondly to put forward a number of points which are as yet unresolved. It must be appreciated that my commentary is a personal one and I am certain that somebody else with the opportunity of occupying my seat at Tillings would have produced quite a different story. I must also confess that although I have tried to get everything into a nutshell as compactly as possible, I have at times been embarrassed by having far too much material to present. To give an address at an Oxford Summer Course is a wonderful opportunity to state your opinions and to share your experiences with others. If in grasping this opportunity I have managed to raise some matters of interest and perhaps controversy that will be taken up in discussion then I may have succeeded in my endeavours with what is surely not only a topical and a technical but also an enthralling thesis.

Weekly Notes

Cost Accountants' Examinations

A TOTAL of 6,241 candidates from the United Kingdom and overseas sat for the June examinations of The Institute of Cost and Works Accountants and 2,162 were successful. There were 202 candidates for the Management Accountancy examination of whom 53 completed the examination, two passed Part A only, 8 passed Part B only and 139 failed. The Lewton Coronation Prize was won by Mr D. R. Matthews, of Orpington, Kent, and the Beyer Peacock Prize by Mr J. H. Davies, of Sale, Cheshire.

There were 1,990 candidates for the whole or part of the Final examination, of whom 339 successfully completed the examination, 77 passed Part A only and 337 passed Part B only; the remaining 1,237 candidates failed. The First Place and the S. Laurence Gill Prize were won by Mr R. Gazard, of Cardiff, and the Donald L. Moran Prize for Management (Factory and Distribution) was won by Mr S. Houghton, of Solihull, Warwickshire.

In the Intermediate examination there were 3,823 candidates, of whom 586 completed the examination and 710 passed Part I only; the remaining 2,527 failed. The George Russell Memorial Prize for First Place was won by Mr G. S. Miller, of London.

A summary of the results, together with the names of the candidates who were successful in the Management Accountancy examination and those who successfully completed the Final, appears elsewhere in this issue.

Pension Survey

BONAPARTE, looking down upon Britain from the Elysian Fields (not the Champs-Élysées), might be pardoned for thinking of the inhabitants now as a nation of *pensionnaires*. Retirement benefits are available for almost everyone and among other entitlements which may accrue to individuals on their way from the cradle to the grave are war pensions; family, child and guardian allowances; unemployment, sickness, injury, disablement and widows' benefits; and, finally, death grants. All this is in keeping with the modern and wholly admirable social concept that poverty must be abolished, and no responsible citizen grudges the contribution he may make towards the benefits of others less fortunate than himself but, nevertheless, the predominant impression which one gets from reading the 1960 report of the Ministry of Pensions and National Insurance (H.M.S.O. 8s) is that a very considerable amount of human effort is being expended in maintaining this service at the

high efficiency level it demands. It is true that computers now aid the administration but, in spite of this, the staff of the Ministry increased last year by 995 to the very considerable total of 37,042. This presumably does not include the members of the Post Office staffs who pay out over the counter in cash the bulk of the £1,200 million annually distributed in benefits.

Among the means now in operation of lessening the burden of clerical work is the arrangement whereby employers (with at least 250 employees) may make direct payment of contributions by cheque under a schedule or invoice system. Of the £886.5 million collected from employees and insured persons in 1960, £183.5 million was remitted by this means. Another £132 million was accounted for by employers using franking machines for impressing stamps on cards. The Ministry relies upon a LEO II computer to handle its own payroll and to produce statistical tables, and a second computer, an EMIDEC 2400, now on order and expected shortly, will be used to keep the records of the Government's graduated pension scheme. At the end of each year, a high-speed printer linked with this machine will produce some 20 million statements for issue to contributors showing what has been entered in the records to their credit.

Chartered Accountant's Transport Commission Appointment

THE appointment of Mr P. H. Shirley as a member of the British Transport Commission, announced by the Minister of Transport last week, will have been noted with particular interest by the profession. Mr Shirley, who is a member of The Institute of Chartered Accountants in Australia, will be a full-time member of the Commission, responsible for finance.



Born in Sydney in 1912, he was educated at one of Australia's leading public schools - Shore School, Sydney - and later he qualified as a chartered accountant.

In 1936 he came to the United Kingdom for further training and has lived and worked in Britain ever since. At first he spent a period with a leading firm of accountants and later entered the industrial field, subsequently becoming chief accountant of Unilever Ltd. In this post he visited most of the four hundred Unilever companies in Britain and overseas. In 1958 he was appointed chairman of Batchelors Foods Ltd. He is a member of the Board of Referees set up under the Income Tax Acts.

The Gas Industry's Future

IF the gas industry is to remain competitive, according to a report by the Select Committee on Nationalized Industries published last week (H.M.S.O. 6s 6d), it must cut production costs by about 30 per cent. Such a reduction must be made quickly and on a large enough scale to have an early effect on the average national price of gas. The best means of bringing this about, the committee suggests, appears to lie in bulk production on a countrywide basis reinforced by a high-pressure national grid and underground storage facilities. This would entail certain changes in the constitution of the industry, possibly by the addition of a thirteenth board to develop the manufacture and sale of gas to the existing twelve area boards.

A factor which has adversely affected the economics of the gas industry since it was nationalized in 1948 has been the continuous increase in the cost of coal which, apparently, hits the gas industry more than the electricity industry. Also, the price of coal over the same period has risen more steeply than that of oil. In consequence, the area boards have been able to accumulate only small trading surpluses since their inception. After allowing for replacement of plant there is little either of new capital or of profits available for research and development work. The industry is, however, examining two ways of producing cheaper gas in bulk. One is the imported methane scheme; the other is the large-scale gasification of coal by Lurgi process. The committee stresses the sense of urgency in deciding which is the better and adds that the implementation of any plan for the improved structure of the industry, once agreed, should not be delayed.

The chairman of the Gas Council is quoted as having said that time is not on the side of the industry and the dilemma seems to be twofold – firstly, that when new processes are proved, the organization will not be there to make the best use of them; and, secondly, that unless the present organization is altered, the desired processes may not be developed as quickly as they should be. The select committee has certainly given both the Government and the leaders of the gas industry food for urgent constructive thought which, it is sincerely to be hoped, will before long be matched by appropriate action.

The Board on the 'Boards'

ALTHOUGH there is no reason why low intrigue in high finance should not lend itself readily to stage presentation, if a character in a play is a company director he is usually essential to the plot, not because he is a company director, but because of some happening or situation in his private life. This convention did not deter Messrs George Ross and Campbell Singer three years ago from writing a highly effective play (called *Any Other Business*) about a take-over bid. Now they have put another board of directors on the stage in *Guilty Party* which opened at the St Martin's Theatre, London, last week.

This time the theme is embezzlement at 'top-hat' level. The single setting is a sitting-room in a West End flat; there are no breaks – other than for refreshment – in the continuity of events and the authors complete their scrupulous observance of the dramatic unities by making all the action, or rather talk, revolve round the solution of the one central problem – Who took the money? Allegation is followed by counter-allegation and argument by counter-argument until, with characters and audience alike almost at breaking-point, the swindler is exposed. On the stage for most of the evening are the six present directors and one ex-director of the company which has been defrauded, together with the company's auditor, the chairman's wife and his private secretary, and an almost casual outsider whose cool and detached reasoning brings about the final denouement.

Critics who have dismissed *Guilty Party* as an idle frivolity are wrong. It is a business morality play, immaculately directed and understandingly acted by a splendid cast, which should be seen by all executives of substance and, of course, by their professional advisers.

The T.U.C. Report

THE annual report of the T.U.C. General Council was awaited this year with particular interest on account of the importance of the attitude to be taken by the trades union movement to the question of participation in the European Common Market and to the economic future of the country. It was also hoped that the report might reflect the attitude of the new General Secretary to some of the important economic issues of the day. In the event, the attitude to the Common Market, which is expected to comprise rather more positive support than has hitherto been given by the Labour Party, is left to a supplementary report to be issued later.

On other outstanding economic questions very little progress appears to have been made, a fact which may have serious repercussions in the discussions between the Chancellor of the Exchequer and the T.U.C. Economic Committee regarding the long-term future of the economy which were inaugurated this week. The T.U.C. has always favoured a measure of economic planning but its own tentative steps towards co-ordination of the industrial policies of the unions do not appear to have progressed very far.

While a section of the leadership of the T.U.C. is believed to favour close co-operation with the Chancellor, it is difficult to see how this can be made effective if no agreement has been reached within the union movement on such questions as wage co-ordination.

Rise in Retail Sales

THE provisional retail trade index for July showed a rise of four to five points compared with the preceding month. This is a remarkably big rise for a single month and it will be necessary to await the

final figures in about a fortnight's time before the full significance can be assessed.

The final figures for total retail sales in June showed a slight fall compared with May and this marked rise in July appears to have been due mainly to anticipatory buying to forestall expected price increases due to the 'little Budget'. Such anticipatory buying was greater than usual owing to the unprecedentedly long notice given of the Chancellor's intentions.

Retailers of consumer durable goods appear to have benefited from this rise in sales both because their goods have in the past been the most seriously

affected by changes in hire-purchase conditions and because they are, for the most part, expensive enough to justify anticipatory buying. But the temporary rise in sales of such goods in July has had little effect on manufacturers of consumer durables, particularly refrigerators, whose sales in the first six months of this year have, for the most part, been well below those of last year. Nor is the immediate outlook particularly promising since apart from the direct effects of the Chancellor's recent measures, sales in the next few months are likely to be still further reduced by the anticipatory buying referred to above.

This is My Life . . .

by An Industrious Accountant

CHAPTER 86

I ONLY realized how astonishingly little is known to the younger generation about the accounting profession when my 18-year-old nephew was staying with me for a week-end recently. On the Saturday afternoon the heavens opened suddenly and the rain fairly sizzled off the pavements. Shopping being impossible, we went to the local cinema.

There was a good double-feature, including one of these clever doctor-in-the-house comedies, which had the audience in continual chuckles; chatting about it over tea in the lounge my nephew showed a remarkable knowledge of medical life. He knew about the exams, the interne system, the escapades, and even the final choices of careers between the Harley Street specialists and the G.P.s, or the wandering locums and cruise-doctors. This seemed surprising, his family background being banking, so I queried the reason.

'Well, all these films about doctors, you know', he explained. 'And hundreds of books, all the gang read them . . . see for yourself.'

Sure enough, the kiosk beside the door was packed with them, ranging from the classic titles like *San Michele* or *Benefactors of Mankind* down to *Nurse Betty's Secret* and even *Werewolf Surgeon*. The covers showed stern, noble types in white coats; even the werewolf had a dashing aristocratic air.

'Doctors have a marvellous life', sighed my nephew, so I explained about a C.A. friend of mine who is administrator-secretary to a big hospital, always faced with complex problems, really at the nerve-centre of the organization, his cool judgment responsible for the ultimate fate of hundreds. My nephew interrupted in some bewilderment: 'What on earth has an accountant to do with hospitals?' he said. 'Just paying the bills can't be professional work, can it?'

He sounded impressed when I explained, but his thoughts soon wandered to the second feature, a Hollywood production about a braggart pilot's feud with his tough C.O. in Korea. Yes, nephew knew all about air force problems, too. Training, and bombs away, and ceiling zero, and writing off crates . . . he had the jargon. Why? Well, all those films, and the books, of course.

True enough, one window of the kiosk seemed full of paper-backs with lurid dog-fights on the covers. 'The red Fokker triplane came down in a screaming dive, its Spandau chattering, on the crippled de Havilland. Young Dick Dauntless met it with a deadly burst from his Vickers, sewing a seam of lead beneath Von Richter's cockpit . . . 'They're wizard', said my nephew enviously.

It was rather uphill work explaining about jobs for accountants in the R.A.F. He sounded amused at first, with a joke about someone having to tot up the bills after those wild mess parties, but I squashed him by stressing that we practically ran the whole show ourselves. The comparative costs of different kites, international currency transfers, and secret couriers with cryptograms only decipherable by accountants . . . it was our prerogative to supervise such things. After all, if your finance man says you can't afford that new jet, then you just don't have it. I laid it on thick, and threw in the attractive cash gratuities on retiral when his jaw began to sag.

'But why doesn't someone tell us about all this?' He sounded plaintive. 'I've never even seen a book about accountants; my crowd seem to think they're always doing tots in stuffy old offices.'

He had a point there. Our profession is very conscious of the need to attract the best types of young men to join our ranks to maintain our standards of ethics and service in a competitive world, but our contacts with the younger generation is limited. Maybe the showing of the films mentioned in *The Accountant* a short while ago will disseminate some helpful information, and inspire the youth of the country with the realization that accountancy is essentially an adventurous career. There can be as much romance in the dark coat and the red pencil as in the white overall and the scalpel or the leather jacket and the joystick.

Finance and Commerce

Tax Explanation

A SPECIAL explanatory statement on the overseas trade corporation position of Gilman (Holdings) Ltd is added to this year's report and accounts for the year to April 5th, 1961. Exactly what the company does is not evident from the annual publication but it is on record that it has three subsidiaries, Gilman & Co Ltd, Moutrie & Co (Hong Kong) Ltd, and Far East Import Export Ltd, and that all have obtained O.T.C. status.

Mr C. Blaker, the chairman, says that some misunderstanding has arisen, particularly in Hong Kong, concerning the operation of the United Kingdom O.T.C. tax legislation and its effect on the deduction of tax from dividends paid by the company. He therefore asked the auditors to prepare a short explanatory report.

The auditors point out that recognition of the O.T.C. status of the four companies has already been obtained in respect of the year ended April 5th, 1961. A claim to tax repayment can now be made by any person who is not a United Kingdom resident and who was the beneficial owner of the shares and the dividend on the date on which the respective dividends were due, namely, June 10th, 1960, and March 29th, 1961. This claim is to be made on Form A1/O.T.C. (obtainable from the Inspector of Foreign Dividends at Kingston By-pass, Surbiton, Surrey, or from the Registrar in Hong Kong) should eventually lead to a refund of 5s 3d in the £ on the gross dividend, the net amount of United Kingdom tax deducted allowing for Hong Kong taxation of 2s 6d in the £.

Non-Resident Owners

The auditors stress the fact that recognition of the four companies has to be obtained in retrospect for each and every United Kingdom income tax year ending on April 5th and that such recognition only affects dividends payable during the year and not dividends declared in respect of that year which become payable after the end of the year. As a consequence, claims for repayment of tax can only be lodged after April 5th of the fiscal year in which any relevant dividends are paid.

The holding company intends to enter into a special arrangement possible for overseas trade corporations under which, in cases where shareholders have satisfied the United Kingdom Inland Revenue

that they are not resident in the United Kingdom and the Inland Revenue so informs the company, dividends may be paid to such shareholders without deduction of the United Kingdom tax which they could otherwise reclaim and so obviate the need for making annual claims for repayment. When the arrangement is in operation, any non-resident shareholder wishing to take advantage of it will apply to the Inspector of Foreign Dividends for Form A5/O.T.C.

But there are two conditions before such a claim can be recognized. The shares must be registered in the non-resident owner's name (not in the name of a nominee); and the arrangement holds good only so long as the non-resident shareholder's holding remains unaltered; in the event of any change in the total shareholding, the shareholder may be required to complete a further A5/O.T.C.

Within the Year

As the chairman points out, it is evident from the auditors' explanation that shareholders not resident in the United Kingdom making individual claims would have to await recognition of the company's O.T.C. status until after the following April 5th, thereby creating a delay of approximately a year before such claims could be settled. To assist this group of shareholders which, he says, may well form a large part of the total, the directors decided to pay an interim dividend in March this year, thereby ensuring that it would fall within a period for which such recognition would follow with least delay. And for the same reason, this procedure may be followed in future. Due to this decision the last two dividends of 20 per cent have fallen in the same period and both are provided in the accounts. But Mr Blaker emphasizes that there is no indication of anything other than an annual rate of 20 per cent for these past periods.

Finance for Property

INSURANCE company finance for property development purposes is now difficult to raise following the Chancellor's recently imposed restrictions, but most of the leading property groups had already made their financing arrangements on this basis well before July. The report of Town & Commercial Properties Ltd, for the year to last March shows the worth of this type of finance. Last March the company arranged some £4 million of long term money with the Legal & General Assurance Society which took a 10 per cent interest in the property company's equity.

Mr Ralph C. Yablon, the chairman, says that these funds will enable the company to complete current developments, as well as further schemes, without recourse to shareholders for additional capital. In the main, he says, the company has acquired properties which, by virtue of redevelopment and relettings, have become, taken as a whole, 'self financing'.

This Consolidated Profit and Loss Account incorporates the results of Gilman (Holdings) Limited for the year ended 5th April, 1961, and those of the Subsidiary Companies for the year ended December 31st, 1960

[illegible]

NOTE:—

The comparative figures for the previous year incorporate the results of Gilman (Holdings) Limited for approximately 15 months to 5th April, 1960, and those of the Subsidiary Companies for approximately 6 months to 31st December, 1959, following the acquisition of these Companies by Gilman (Holdings) Limited. The profits, before taxation, of the Subsidiary Companies for the full year ended 31st December, 1959, amounted to approximately £190,500.

CITY NOTES

THE 'little Budget' has at last succeeded in numbing the stock-market into inactivity. Possibly the Berlin situation has also affected sentiment to some extent but investors have lived with this kind of political unease many times before.

The real influence on the market is undoubtedly the Chancellor's moves which, like an iceberg, only shows a tenth of its size above water. The severity of the squeeze on credit was not immediately appreciated when the new moves were announced a month ago.

The banks are meeting 'special deposit' calls by cutting back lending rather than by selling investments - their ability to do that, anyway, is now limited. Insurance companies have clamped down on property development financing and already the lack of such finance is being reflected in a fall in land values.

Funding of bank borrowing by industrial companies is bringing fresh issues on to a market which, for the time being, is not prepared to accept new share offers on a growth basis. Trustee investors, by and large, are holding off the equity market on the grounds that economic circumstances are moving in their favour. A rising gilt-edged market and uncertain equities do not make a combination suggesting that switching out of 'gilts' into equities is a matter of great urgency.

The stock-markets, as a result, are extremely idle, with equity prices gradually giving ground. There is no immediate indication of any real change in the trend.

RATES AND PRICES

Closing prices, Wednesday, August 23rd, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills

June 16	£4 10s	0.42d%	July 21	£4 12s	5.62d%
June 23	£4 10s	8.47d%	July 28	£6 13s	9.22d%
June 30	£4 10s	8.94d%	Aug. 4	£6 14s	3.33d%
July 7	£4 10s	8.80d%	Aug. 11	£6 14s	8.51d%
July 14	£4 11s	4.47d%	Aug. 18	£6 14s	1.83d%

Money Rates

Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6½%
Fine Trade Bills		3 months	6½-6½%
3 months	7½-8½%	4 months	6½-6½%
4 months	7½-8½%	6 months	6½-7%
6 months	8-9%		

Foreign Exchanges

New York	2.8½-½	Frankfurt	11.20½-½
Montreal	2.88½-89	Milan	1740-½
Amsterdam	10.10½-½	Oslo	20.00½-01
Brussels	139.59½-½	Paris	13.79½-½
Copenhagen	19.34½-35	Zürich	12.10-½

Gilt-edged (revised List)

Consols 4%	58½	Funding 3% 59-69	78½
Consols 2½%	38½	Savings 3% 60-70	75½
Conversion 5½% 1974	88½	Savings 3% 65-75	67
Conversion 5% 1971	87½	Savings 2½% 64-67	81½
Conversion 3½% 1969	80½	Treasury 5½% 2008-12	81½
Conversion 3½%	52½	Treasury 5% 86-89	81
Exchequer 5½% 1966	96½	Treasury 3½% 77-80	67
Funding 5½% 82-84	88½	Treasury 3½% 79-81	66
Funding 4% 60-90	86½	Treasury 2½%	38½
Funding 3½% 99-04	56	Victory 4%	92½
Funding 3% 66-68	79½	War Loan 3½%	52½

Reviews

Back Duty Manual

Second edition, by A. J. ROPER, B.SC.(HONS.) (Butterworths & Co (Publishers) Ltd, London. £1 12s 6d.)

As an ex-Senior Inspector of Taxes formerly employed in the Inland Revenue Enquiry Branch, Mr Roper could hardly be better qualified to write a book on back duty, particularly in that branch of it which concerns accountants who shoulder the task of computing the amount of profit under-assessed. The book contains two long and elaborate practical examples which cover almost every complication met with in practice. The new edition has been necessitated by the enactment of Part III of the Finance Act, 1960, which, following the *Hinchy* case, constitutes a new code.

Unsurpassed in his treatment of the mechanics of profit computation from inadequate records and in

his treatment of the practice followed in back duty negotiations, the author is perhaps a little less sure in his grasp of the legal aspects of the topic. Pages 109 to 111, dealing with deceased taxpayers, could well be improved. He suggests on page 111 that proceedings for penalties incurred by the deceased cannot be started more than three years after the assessment year in which the taxpayer died. In fact, there is no such limit, thanks to Section 56 (5) of the Finance Act, 1960, not to mention the Law Reform (Miscellaneous Provisions) Act, 1934, and *Attorney-General v. Canter* (17 A.T.C. 488).

A table of cases and a table of statutes would be welcome adjuncts in further editions.

Kerly on Trade-marks

Eighth edition, by R. G. LLOYD, C.B.E., M.A.(CANTAB.), B.SC.(LOND.), J.P. (Sweet & Maxwell Ltd, London. £7 7s net.)

The publication of this new edition has given the editor the opportunity to include some of the experience of the Trade Marks Act, 1938. This Act, being enacted just before the war, had not been

thoroughly tested by 1951 when the last previous edition of the work appeared. This branch of the law is extremely difficult to master because there is an inextricable mingling of common law and statute law. Anyone who attempted to solve any but the simplest problem without the aid of *Kerly* would be very imprudent indeed; we know of no other work which remotely approaches it in comprehensiveness and up-to-dateness.

There are nearly 500 pages of text, beginning with the history of the way in which the Courts have dealt with passing-off actions long before there was any statute law. Needless to say the work deals very extensively with the statutory provisions for the registration and protection of trade-marks, and with the current practice. Appendices contain the Trade Marks Act, 1938, the Trade Marks Rules, rules of the Supreme Court dealing with trade-marks, the International Convention for the Protection of Industrial Property, the various Merchandise Marks Acts, and other matters. The extension of international trade, and the prospects of its further extension by the Common Market, make the international aspects of trade-mark protection ever more important and a good deal of attention is paid to them in the book.

Spicer & Pegler's Income Tax and Profits Tax

Twenty-fourth edition, by H. A. R. J. WILSON, F.C.A. (H.F.L. (Publishers) Ltd, London. 30s net.)

Mr Wilson's lucid powers of exposition of a baffling subject are well known to accountancy students and in this book he gives this valuable talent full rein. The book itself is so well known that it would be idle to describe it in detail. It is, however, worth mentioning that although the book is primarily a textbook for students, it is extensively used by practitioners and indeed contains some helpful notes on practice which are not to be found in more pretentious tomes.

In our last review we suggested that the short section on settlements might well be revised with a little more information added about the 1958 changes in the law. This has been done but the book still perpetrates the error to which we drew attention in 1959, namely, it still cites *C.I.R. v. Gaunt* as an authority for the proposition that 'wife' includes 'widow', although that particular decision was overruled by the extremely important (but unmentioned) House of Lords decision in *Vestey v. C.I.R.*

In the section on surtax directions dealing with 'all types of companies' there are two new sentences correctly reporting the official view that once a direction can be made, the income can be apportioned to people who were members at any time during the accounting period. One would have expected a corresponding amendment to the section on investment companies, which, however, still contains the sentence (page 437) (our italics):

'In the case of an investment company, income may be apportioned to a member even if he has ceased to be such before the end of the accounting period; the Special Commissioners are to apportion as they think appropriate.'

In the official view, of course, this principle is not confined to investment companies.

Section 72 of the Finance Act, 1960, contains an elaborate code for granting capital allowances in management expenses claims and maintenance claims, in place of previous extra-statutory concessions. The section deserves a mention in the book which it at present lacks.

Industry and Careers

edited by D. E. WHEATLEY, M.A., B.SC. (Iliffe Books Ltd, London. 55s net.)

One of the most hopeful features of society today is that promise in the young, in order to be encouraged, need no longer be accompanied by parental affluence or influence. Every child who shows merit stands a reasonable chance of bringing his or her talents to maturity with the aid of scholarships or grants. Another advantage now readily available is the reliable supply of career literature. Most professions and trades discreetly advertise their opportunities in this way and there are also careers masters, personnel officers, staff managers, employment bureaux, psychologists and psychiatrists in abundance, all competent to find the right niches for school leavers and university graduates.

A notable addition to these services already on tap is *Industry and Careers*, described by the publishers as 'a study of British industries and the opportunities they offer'. The book has over 800 pages and as well as giving comprehensive analyses of the principal industries of the United Kingdom (this forms the bulk of the text) deals with the philosophical background of choosing and starting a career and with the material help which may be obtained in pursuing it. There are numerous photographs and a series of excellent charts showing the sequence of operations in industrial processes and the mazy paths of promotion leading from the factory bench to the boardroom. The whole publication should be studied carefully by every future managing director now between the ages of 15 and 25.

Taxation in Sweden

World Tax Series of Harvard Law School (Little, Brown & Co, 34 Beacon Street, Massachusetts, U.S.A. \$17.50 net.)

This is the fifth volume in the world tax series undertaken by the Harvard Law School in their international programme in taxation in consultation with the United Nations Secretariat; the earlier volumes dealt with Brazil, the United Kingdom, Mexico and Australia. In the present volume Martin Norr has collaborated with Frank J. Duffy, Attorney,

of New York City, and with Harry Sterner, of Jönköping, Sweden. Mr Sterner is treasurer and chief tax officer of Jönköping county and former head of the section of the Finance Ministry which prepares tax cases for the Supreme Administrative Court in Sweden. Drafts of the manuscript were submitted to officials of the United Nations Secretariat and to tax authorities in the United States and in Sweden for comments and suggestions.

The book claims, and with justice, to be the first in the English language to give a complete and authoritative survey of the Swedish tax system, which is a highly developed one. Particular care has been taken with the translation of Swedish technical terms and the volume is uniform with the earlier volumes in the series so that the reader will the more easily absorb the new material. Clearly, anyone with a Swedish tax problem and no command of Swedish cannot afford to be without this book.

The Estate Duty Act (India)

with a commentary, critical and explanatory, by D. H. NANAVATI, B.A., LL.B. (N.M. Tripathi Private Ltd; Bombay, Sweet & Maxwell Ltd, London. 50s net.)

The British never inflicted an estate duty on India, but this the Indian nation did itself in 1953 when it enacted the Estate Duty Act, which, with the modifications necessitated by the special problems posed by Indian law, is an almost word for word copy of the current British estate duty legislation, although, of course, much more scientifically arranged. The British statutes were adopted so that the large body of case law on it would be available for construing the new Act. On top of all this there are, as we have said, the peculiarities of Indian law which reflect the religious diversity existing in this large territory. The Act is reproduced at the end of the book and Mr Nanavati takes the reader through each section in a patient and masterly manner.

Houseman's Law of Life Assurance

Fifth edition, by N. S. WENBORN, LL.B.(LOND.), F.I.A. (Butterworth & Co (Publishers) Ltd, London. 27s 6d net, postage 1s 8d extra).

This is, perhaps, not so much a book on life assurance as such, as a book on the general law where it impinges on life assurance policies, written for the assistance of persons without legal qualifications who nevertheless have to deal with legal aspects of life assurance business. It is therefore necessarily somewhat elementary in its approach to such fundamental concepts as the meaning of 'contract'. The fundamental question as to what is life insurance is not dealt with, as one would expect, in the introductory part of the book, but as it were by the way in the chapter on income tax relief for life assurance premiums. There mention is made of *Gould v. Curtis* which established that a 'double endowment assurance'

is an insurance on life within the meaning of the income tax relief provisions. In the new edition the section on estate duty has had to be largely rewritten owing to the extensive changes made by Finance Acts of recent years. The section on pension schemes has been cut down to about one page and less than a page has been added to deal with the scheme of relief for retirement annuities introduced by the Finance Act, 1956.

Studies in Business Organization

A Supplement to *Business Enterprise*, edited by RONALD S. EDWARDS and HARRY TOWNSEND (Macmillan & Co Ltd, London. 25s).

This volume is a collection of case studies, originally presented by industrial managers to the weekly seminar on Problems in Industrial Administration at the London School of Economics. The editors have selected ten studies bearing upon industrial organization to provide further reading matter for their earlier book, *Business Enterprise*. But the studies are equally good reading whether taken as a continuation course or as a meal in themselves. Because the papers were originally presented orally to the seminar the personalities of the authors come through clearly in the printed text and invite the reader to consider why the enterprises concerned have prospered – for this, at least, is common to all according to their particular standards, whether the reader is considering, for example, the empire of Charles Forte; the Mobil Oil Co Ltd; Guest Keen & Nettlefolds (Midlands) Ltd; the Royal Opera House, Covent Garden; or H.M. Stationery Office.

In the preface the editors refer provocatively to the element of luck which appears to have influenced the early development of some of the enterprises described, particularly perhaps the Dowty Group Ltd, and Peninsular & Oriental Steam Navigation Ltd. There obviously was luck, associated normally with war and batting correctly on the winning side. But maybe the editors are confusing luck with successful gambling, which are not the same thing. No doubt Civil Servants should not be encouraged to gamble and the Controller of H.M. Stationery Office lays no claim to have done so, even though the general administrator of Covent Garden probably did. But Vauxhall Motors Ltd, Elliott-Automation Ltd and Boots Pure Drug Co Ltd, provide stories of highly successful gambling, associated with hard work, single-mindedness and right judgement. And the same is true of the other cases.

Taken as a group the studies do not contribute much to the theory of business organization; organization structure tends to get discussed as an afterthought when the fascinating story of the growth of the particular enterprise has been unfolded – and none more dramatic than that of P. & O. It is encouraging to find how similar and full of common sense most organizations are, and the book shows how easily basic principles of organization fit diverse industries.

But the book will not be read for what it has to teach about organization, but rather, like all good books on management, it will be read for what it tells about people – their single mindedness, their determination, their foresight, their self-satisfaction but not complacency, their slight self-pity when efficient competition is encountered, their lust for size. These seem to be the qualities which have driven man to drive enterprises to the top of their class; the organization they employ follows a corollary. But business is people, and the book teaches much about this vital subject.

RECENT PUBLICATIONS

ADMINISTRATORS IN ACTION, Volume I, by F. M. G. Willson. 350 pp. 9×6. 35s net. Issued under the auspices of The Royal Institute of Public Administration and published by George Allen & Unwin Ltd, London.

OVERSEAS DIRECTORIES WHO'S WHO AND PRESS GUIDES AND YEAR BOOKS, 1961. Editor H. R. Vaughan. 76 pp. 8½×5½. Card covers 7s 6d (\$2.50 Airmail). Publishing & Distributing Co Ltd, 177 Regent Street, London W1.

THE STRUCTURE OF INDUSTRY IN BRITAIN, by G. C. Allen, PH.D., M.COM. x+236 pp. 7½×5. 12s 6d net. Longmans, Green & Co Ltd, London.

THE FAR EAST, the first section to be reprinted from the OVERSEAS NEWSPAPERS AND PERIODICALS GUIDE BOOK. 52 pp. 8½×5½. Paper covers. 6s (\$1 Airmail). Publishing & Distributing Co Ltd, 177 Regent Street, London W1.

TAX TABLES AND TAX RECKONER 1961-62, by George Whillans, F.I.B., F.T.I.L., F.R.ECON.SOC. 11 pp. 10×6½. Card covers. 1-5 copies 5s 6d, 6-24 copies 5s, 25 and over 4s 6d. Butterworth & Co (Publishers) Ltd, London.

A THEORY OF ACCOUNTING TO INVESTORS, by George J. Staubus. xii+149 pp. 9½×6½. 32s net. California University Press. London: Cambridge University Press, London.

THE RATING AND VALUATION ACT, 1961. Edited with a Guide and Index by The Rt Hon. Lord Meston. 34 pp. 8½×5½. Card covers. 7s 6d net. Property Owners Protection Association Ltd, Spencer House, South Place, London EC2.

PRICE-LEVEL ADJUSTMENTS OF FINANCIAL STATEMENTS – AN EVALUATION AND CASE STUDY OF TWO PUBLIC UTILITY FIRMS, by Eldon S. Hendriksen, B.S., M.B.A., PH.D., C.P.A. 133 pp. 9½×6½. \$4. Bureau of Economic and Business Research, Washington State University Press, Pullman, Washington.

Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Can We Afford Not to Use Marginal Costing?

SIR, – I am obliged to Messrs D. R. C. Halford (August 12th issue) and N. H. Green (August 19th issue) for their kind and helpful contributions on this subject. Perhaps you will allow me a few further words in reply to the points they raise.

The description 'marginal costing' is well established in Britain, and used by both managers and accountants. I do see the utility, however, of the term 'differential cost' meaning the marginal cost outside the bottleneck. The fact that economists know a more theoretical concept by the name 'marginal cost' does not affect our problem; if they step outside their world to enter ours they must take the trouble to understand the terminology – and, of course, vice versa.

I do agree with Mr Halford that the Institute's Recommendation 22 is pleasingly explicit where it says that the more fixed costs accrue on a time basis the less justification there is for including them in stock values. This is a most important statement of principle.

Mr Green's point is that marginal costing is not an alternative to full costing, but must take precedence in the cost accounts to the calculation of full cost on an arbitrary basis. I think that this bears a great deal of repetition, because cost accountants are trained to set up costing records on the basis that full costs are required to be ascertained regularly.

In fact, the full cost calculation is more appropriately undertaken outside the cost accounts when required to be known. As for using the marginal cost for investment decisions, the profitability calculation proceeds from the differential cost, but once the investment has been made then only the marginal cost enters into operating calculations.

We must recognize the fact that *past* costs have no relevance for decisions affecting the present and future. They cannot be changed, nor can they change anything which is done after they are incurred. This is the basic theory upon which marginal costing is based, and which should enable us to distinguish between 'fixed' and 'variable' costs in the actual business situation.

Yours truly,
London NW1 KENNETH S. MOST.

Decimal Currency

SIR, – Your reference to The Institute of Municipal Treasurers and Accountants and their decimal coinage memorandum (page 204/205 of the issue of August 12th) raises an interesting point.

I agree with your argument concerning the terminology of the new currency – but have we not one stage further to go in this?

For sentimental reasons one could prefer to use some old English coinage names instead of pounds or pence, such as nobles or groats, but we must remember the impact of the Common Market.

If the United Kingdom adheres to the Rome Treaty, might not the logical step – besides decimalization – be a new European currency? Perhaps instead of the franc, mark or pound there should be a new monetary unit to be called the Europa.

Yours faithfully,
Hove, Sussex. K. R. PACKER.

Electronics in the Office

International Computer Congress

THE International Federation of Information Processing Societies is to hold an international computer congress in Munich next year, from August 27th to September 1st. The Federation is a world organization representing the technical societies of seventeen nations. Each member on the Federation's Council represents his nation's technical societies active in the information processing field. In addition to technical symposia, there will be an exhibition of computers and other information processing equipment at the congress and several thousand delegates from all parts of the world are expected to attend.

The Council of the Federation has recently formed a committee for the standardization of terminology and symbols and Mr G. C. Tootill, of the Royal Aircraft Establishment, has been appointed chairman. While some international standards discussions have been held previously by various national groups, the formation of this new committee is the first international standards project in the computer field to be undertaken by a technical body directly representative of the information processing sciences.

Trade Union Orders Computer

THE Amalgamated Engineering Union has placed an order with International Computers & Tabulators Ltd for an I.C.T. Type 555 electronic computer and ancillary equipment to the value of £67,000. The A.E.U. with over a million members in 2,400 branches is one of the biggest unions in the country and is the first to adopt this form of mechanization to facilitate administration.

The equipment will be used for the centralization of accounting for members' contributions and for issuing quarterly members' statements. Sickness and death benefits and other payments are planned to come within the scope of the computer. The first improvement as a result of the employment of the new equipment is that the cash from each branch meeting will be balanced fortnightly by headquarters instead of every six months.

The new system involves a book of tear-off sheets containing members' numbers and the amounts paid. The sheets will go to the general office where details will be transferred to punched cards. There will be one card per member identified by number within branch, each card being punched fortnightly with the amount of the relevant contribution. Members will receive quarterly tabulated statements of account via the branch secretary.

Course on Computers

A COURSE, in two parts, on electronic computing systems is to be held at the Sir John Cass College, Jewry Street, Aldgate, London EC3, commencing on October 25th.

The course is intended for executives and others interested in the commercial applications of electronic computers and no prior technical knowledge will be assumed. Part I of the course will consist of twelve lectures on 'The construction and operation of electronic digital computing systems designed for commercial purposes', and will give an appreciation of the operation and programming of computers in general. The second part of the course, which will commence on January 17th, 1962, will consist of twelve lectures on 'Some commercial applications of electronic digital computing systems' during which visits to computer centres in central London will be arranged. Both parts of the course should be useful to those who need prior knowledge upon which to evaluate the suitability of various types of computer for particular commercial operations.

The fee for each course for those residing in the Administrative County of London is £1. Applications for enrolment forms should be made to the secretary, Sir John Cass College, prior to the opening date of the course.

Scotland's Largest Computer

CLAIMED to be the largest computer system to be installed in Scotland the Scottish Co-operative Wholesale Society have ordered, for delivery early next year, an IBM 1401 RAMAC electronic computer with a high access speed disc file holding 10 million characters of information, together with magnetic tape units for additional information storage.

The system will be used for warehouse stock control and the preparation of sales invoices and statistical information.

The central processing unit of the system performs arithmetical calculations within thousandths of a second and can reply to inquiries on any item of stored information in an average of half a second.

Units of the system include, beside the central processor and disc file, a card read punch, which reads information from punched cards at 800 cards per minute and punches cards at 250 per minute, and a high speed printer with a maximum speed of 600 lines per minute.

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REVALUATION OF ASSETS

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Notes and Notices

PROFESSIONAL NOTICES

MESSRS PROCTOR & PROCTOR, Chartered Accountants, of 43 Westgate, Burnley, Manchester and Nelson, announce that Mr NICHOLAS WADDINGTON, F.C.A., who has been a senior member of their staff for many years, has been taken into partnership.

MESSRS HESKETH, HARDY, HIRSHFIELD & Co, Chartered Accountants, of Norwich House, 13 Southampton Place, London WC1, and King's House, 42 King Street West, Manchester, 3, announce that they have taken into partnership Mr ANTHONY G. H. MARKS, A.C.A., and Mr BRIAN J. P. COTTON, A.C.A., both of whom have been senior members of their staff for some years. The firm's name will remain unchanged.

Appointments

Mr Frank W. Harper, F.C.A., has been appointed a director of Golden Hope Rubber Estate.

Mr J. Pitchers, F.C.A., has been appointed full-time financial director of Bolton Eagle (Holdings) Ltd.

OBITUARY

William McKay Campbell, C.A.

It is with regret that we have learned of the death on July 25th of Mr W. McKay Campbell, C.A., a partner in the firm of Clunie & Scott, Chartered Accountants, of Edinburgh.

Born in 1908, Mr Campbell entered the profession in 1927 as an apprentice with Messrs Howden & Molleson, Chartered Accountants, of Edinburgh. He was admitted to membership of the former Society of Accountants in Edinburgh in 1934 and remained with Messrs Howden & Molleson for a time after qualifying. He then went into practice on his own account for a short period before becoming secretary of Pinkerton, Gibson & Co Ltd, manufacturing chemists, of Edinburgh.

Mr Campbell was a member of the Territorial Army and, on the outbreak of the Second World War, joined the Lothian and Border Horse. He served in France and Germany, being mentioned in dispatches, and had attained the rank of Major on demobilization in 1945. He became a partner in the firm of Geo. T. Clunie & Scott, Chartered Accountants (now Clunie & Scott), of Edinburgh, in 1946, with which firm he was associated up to the time of his death.

Mr Campbell was a man of tremendous personality and drive and his ability and consideration will be greatly missed. In his younger days, he was a member of the Warrender Swimming Club and was a strong swimmer and water-polo player. He also took a very keen interest in rugby football.

LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

Intermediate Prize

The committee of the Liverpool Society of Chartered Accountants announces that its Intermediate prize will be awarded to the candidate who, being a member of the Liverpool Chartered Accountant Students' Association or any one of its constituent branches, gained the highest place in the Institute's Intermediate examination held in May last. The prize will be a book selected by the President of the Society.

It is the responsibility of the student to apply for the prize. Applications should state the position gained in the examination and should be sent to the Hon. Secretary, The Liverpool Society of Chartered Accountants, 3 Stanley Street, Liverpool 1, within two calendar months after the promulgation by the Institute of the results of the examination.

INSTITUTE OF OFFICE MANAGEMENT

Swedish Offices Tour

Members of The Institute of Office Management will next week be touring offices in and around Stockholm. The tour has been arranged with the co-operation of the Swedish Productivity Council and members of the Institute in Sweden. Offices to be visited will include the new building of the General Swedish Electric Co, and members will also attend the nineteenth St Erik's Fair, at which exhibits will include office furniture and equipment from a number of European countries and the United States.

EDUCATION FOR MANAGEMENT

A comprehensive programme of courses on management subjects is being arranged by the Department of Management Studies of the Polytechnic, Regent Street, London, for the 1961-62 session. Collaboration between commerce and industry and the department is being encouraged and a questionnaire has been sent to those firms which have regularly nominated students for the department's courses over the past three years.

Advisory panels are being set up for which some fifty firms have agreed to provide representatives, as managers who are prepared to devote time to address the courses and discuss management problems with students.

In addition, nearly sixty firms have signified their willingness to receive students either singly or in small groups on visits of inspection or to undertake supervised project work on their premises. The firms will also assist in the provision of films and film strips and specialized instruction in the use of desk calculators and accounting machines, and to make material available for case studies.

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THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Results of Examinations held in June 1961

MANAGEMENT ACCOUNTANCY EXAMINATION

PASSED (COMPLETING EXAMINATION)

Adams, P. J., Southampton	Ferguson, J. N., Colombo	Murphy, T. D., Orpington
Anderson, G. A., Glasgow	Flather, D. M., Ilkley, Yorks	Noakes, D. R. V., Lincoln
Archibald, E. J., Edinburgh	Flynn, K., Harrow	Panton, A. R., Leicester
Bakker, F. T., Melbourne	Fouldes, J., Rotherham	Pinder, C., Cleckheaton, Yorks
Barraclough, J. T., Bradford	Gunning, A. H. D., Wallington, Surrey	Porter, H. K., Newport, Mon.
Boekhouth, K., Johannesburg	Hare, R. C., Greenford, Middx	Pratt, H., Colchester
Bowes, C. J. L., Halifax	Harrison, P. G., Woking, Surrey	Puri, L. R., Dishergarh, India
Boyle, C. A., London	Henson, D. E., Loughton, Essex	Puri, Y. P., Hinoo, India
Brand, R. J., London	Hutter, W. H. F., Buckhurst Hill, Essex	Rapson, W., Bromley, Kent
Brooks, R., Leigh-on-Sea	Johnson, L. S., Seven Kings, Essex	Savage, D. A., London
Burnham, P. M., Pewsey, Wilts	Kirkland, G. G., Quebec	Small, J. R., Currie, Midlothian
Burns, P. A., West Kirby, Cheshire	Krishnaswami, N., Calcutta	Stevenson, D. J., Elderslie, Renfrews
Cruickshank, J. McI., Orpington	Lazarus, J. E., London	Swaminathan, T. R., Calcutta
*Davies, J. H., Sale	Loader, F. R., Solihull	Tattersall, D. R., Castle Bromwich
Davies, P. J., Hayes, Middx	Lucas, W. G., Sutton Coldfield	Taylor, I., Dudley, Worcs
Davis, A. P. M., Teddington	Mair, T. B., Lagos	Turner, M. S. V., Oxted, Surrey
Day, K. H., Maidenhead	†Matthews, D. R., London	Zipp, D. W. H., Johannesburg
Douglas, T. W., Point Fortin, Trinidad		
Edminson, R., Cape Town		

* The Beyer Peacock Prize. † The Lewton Coronation Prize.

PASSED PART A ONLY

Tomsett, A. J., Croydon Wallace, J. M., Glasgow

PASSED PART B ONLY

Appleyard, B. W., Bolton	Gorton, F., Blackburn	Pearson, J. W., London
Biswas, C., London	Gretton, R. C., Billericay, Essex	Watson, E. J., Coventry
Clemons, G. R. H., Selby, Yorks.	Ost, R. A. M., Southport	

202 candidates sat. Of these, 53 passed completing the examination; 2 passed Part A only; 8 passed Part B only; 139 candidates failed.

FINAL EXAMINATION

PARTS A and B

First Place (S. Laurence Gill Prize): Gazard, R., Cardiff

Aiyer, A. G., London	Johnson, K. H., London	Prevatt, M. F., London
Aweel, S. I., Thornton Heath, Surrey	Leitch, A. W., Blackburn	Rangarajan, R., Calcutta
Basu, M. L., Calcutta	McBride, N. S., Dundee	Rendell, P. F. J., Bishop's Stortford, Herts
Drury Byrne, J. L. M., Palmerstown, Co. Dublin	Magennis, C., Newry, Co. Down	Steele, R. M., Belfast
Dumpleton, M. J., Durban	Mason, J. M., Chesterfield	Thackrah, P., Northolt
Hart, J. G. T., London	Moore, B., Dunstable	Titely, R., Stoke-on-Trent
Hicks, B. W., Greenwich	Nagarajan, S., Madras	Walker, W. J., Glenrothes, Fife
Hume, J. H., London	Pinder, G., Hessen, West Germany	Warrington, M. J., Blackburn

130 candidates sat. Of these, 25 candidates passed Parts A and B, 15 candidates passed Part A only; 33 candidates passed Part B only. (Names included in lists under these headings). 57 candidates failed.

PART A (COMPLETING FINAL)

Abell, D. W., Newbury	Barlow, F., Bolton	Boland, J. T., Huddersfield
Ambler, P. J. W., Leamington Spa	Beamman, R. W., Greasby, Cheshire	Botwright, E. B., Horley, Surrey
Anthony, R. H., London	Beasley, C. W., Coventry	Bradley, P. B. J., Birmingham
Arnold, P. J., Leigh-on-Sea	Beckett, D., Sheffield	Bradley, R. W., Birmingham
Autherson, D., Hull	Beckwith, R. W., Leeds	Bradshaw, F., Newmarket
Baker, E., Monmouth	Bills, B. F. J., Maidstone	Bratt, R., Liverpool
Baker, N. G. H., Crowborough, Sussex	Bingham, M. S. T., London	Bristow, R. E., Southampton
Balasubramanian, V., Delhi	Bir, S. C., Birmingham	Brockhurst, G. W., Chard, Somerset
Baldry, J. P., London	Birdsell, J. M., Leeds	Brown, J. F., Dublin
Banga, A., Blackburn	Bishenden, L. F., Sittingbourne, Kent	Bullock, M. T., Winsford, Cheshire
Barber, I., Cheam	Blackburn, J. D., Plymouth	Burrows, J., Glasgow
	Boardman, C. G., Bolton	Butter, P., Harrow

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Cultivating Clients

FEW if any practising firms of accountants in the United Kingdom plan and pursue a private publicity campaign to improve relationships with their clients. There are probably two reasons for this reticence. One is that 'Thou shalt not advertise' is still a commandment observed by the truly professional man and he is reluctant to run the risk of being thought to transgress it even within the orbit of his own clientele. The other is that he takes a pride in the quality of his work which he believes is the sole means by which he should commend himself to others.

In the United States where they do so many things differently but with equally sincere motives, the technique of keeping clients and the business community in general fully acquainted with the range and importance of the services accountants have to offer, is by comparison highly developed. The American Institute of Certified Public Accountants, as its latest step 'to strengthen the C.P.A. image', is organizing a series of public relations clinics to assist local societies to formulate their programmes on a 'do-it-yourself' principle. In addition, the Institute has recently issued a check-list which C.P.A. firms are asked to complete and return. The information received will be co-ordinated and assessed to find out to what degree practising firms are already client relations conscious.

The first questions on the check-list are designed to ascertain if the firm has any public relations programme 'as ordinarily understood by a public relations man' and what lists of clients, banks, financial houses, solicitors, relatives and personal friends it keeps. Perhaps the 'most common symptom of inadequate client relations' the authors of the check-list point out, 'is resistance to fees' and they go on to enumerate hard facts in connection with accountancy of which clients may have 'no or insufficient appreciation'. These include the background education required by accountants; the professional skill needed to conduct an audit efficiently; and the costs of organizing an accountant's office and of training and retaining expert staff.

Good communication between accountant and client (the check-list continues) is essential and the next set of questions attempts to define the extent to which firms supply information, both orally and in writing, to clients on matters which directly concern the audit or are of general interest to their business. Finally, the dynamic or creative (as opposed to the foregoing which is regarded as static) means of strengthening client relations are posed. These are intended to impress upon the client the trouble

the accountant is taking 'beyond the call of duty' but the Institute adds a cautious note that it is not to be inferred that the accountant should perform extensive services without 'making proper arrangements for compensation'. The creative element in promoting good relations with the world at large is also considered. This, it is thought, may best be done by active participation in club, church, civic and charitable affairs and even in local politics.

The pattern of this programme is perhaps, after all, not so strange to practitioners in the United Kingdom many of whom do indulge in similar gambits, albeit with the utmost discretion and propriety, for cultivating clients. Promise, said Dr Johnson, is the soul of advertisement. The pride of the professional man is, or should be, that performance is the essence of any efforts he may make to publicize himself.

Research and Development Costs

CONTRIBUTED

We must do more to get the application of scientific research and development into British industry and agriculture in order that they may become more efficient, and that exports may become competitive.

— Mr DENZIL FREETH, Parliamentary Secretary to the Ministry of Science (August 9th).

WHAT are the facts about British research and development efforts? It is estimated that expenditure on research and development in the United Kingdom during 1960-61 reached a total of £450 million, representing some 2 per cent of the country's gross domestic product. Over the past few years the research bill has been growing at about 15 per cent per annum, and with increasing emphasis on technical education one may expect that rate of growth to continue or accelerate; particularly because at present three industries only (aircraft, electrical engineering, and chemicals) still account for 70 per cent of the above total.

In relation to size of population the United Kingdom's expenditure in 1960-61 represented £8 10s per head, whereas the United States in 1959 was spending about \$66.3 (say £23 10s) per head. In considering the justification for these expenditures, one must ask the same questions as apply to other forms of procurement:

- (a) Are we acquiring the right thing? and if so
- (b) Are we paying the right price or incurring an economic cost?

These two aspects are closely linked because, in many cases, the desirability of the end-product will depend on the cost of acquiring it.

Private Venture Research

On both sides of the Atlantic between 33 per cent and 40 per cent of all research expenditure is financed by industry and not covered by Government development contracts. The justification for such expenditure must be similar to that required for the purchase of capital equipment, namely, that it will aid the production of saleable goods yielding sufficient profit to provide the required return on the investment thus made, and on all other capital employed in putting the product on to the market.

Unfortunately, customers will seldom place firm orders for goods they cannot see, at least in prototype, so that investment on research and development will be incurred only by placing reliance on the skill of

- (a) market research to forecast a market at a price, and
- (b) engineering staff to meet the market requirement within the necessary limits of cost.

The financing of risk operations of this nature is a traditional role of equity capital and if capital is not forthcoming for this purpose, one reason is probably a pricing structure which yields profits too easily on the reproduction of existing products and on indifferent engineering.

A great advantage of freer inter-trading in Europe would be the restoration of a premium on inventiveness and enterprise. As the Anglo-American Council on Productivity pointed out ten years ago where competition is keen, managers are forced to study new developments in order to stay in business. Research work must be continuous with a view to producing and marketing commodities of better type and quality than those of competitors.

Although it is indicated above that an appraisal of profitability would be a governing factor in the decision whether or not to undertake a particular project, the very fact that research is necessary must mean that any decision must be based ultimately upon the scientist's appraisal of technical feasibility and the probability of success; in other words, upon a technical judgment rather than upon a financial formula.

Fundamental and Applied Research

Considerations of market potential are relevant only, of course, to applied research and to development. Pure, basic or fundamental research which is directed solely towards the increase of scientific knowledge may be conducted with a particular area of application in mind, but cannot predict the technological consequence of its results; and the chances that it may be completely abortive are higher than in the case of applied research. As rocket scientist Von Braun has said 'Pure research is what I do when I don't know what I am doing'.

The terminology of research unfortunately is not used with complete consistency, although most writers recognize three main phases. The terms *basic*, *fundamental*, and *pure* research give rise to least variation of interpretation, e.g. *fundamental research* seeks knowledge in a particular field without regard to its eventual specific application – investigation designed to increase knowledge in general – research directed towards increase of scientific knowledge.

The term *exploratory* research is sometimes used to mean fundamental research, and sometimes to mean applied research.

Applied research is normally used for the application of knowledge to some practical and presumably profit-making objective, such as a new product or a new process; or, in other words, the detailed examination of a particular phenomenon to establish its technological requirements to find a way to satisfy such requirements.

Development builds on the results of applied research and evolves the final form of a new or improved product or process. It has been defined as the 'translation of a specification or basic research idea into a production possibility, often including the creation of a prototype'.

A recent American article,¹ however, appears to use the term 'development' as covering both development and applied research in the above senses, and uses the expression 'applied research'

for refinements following the creation of a prototype.

The term *concept analysis* has also come into use for an intermediate stage between applied research and development, being defined as 'the preliminary study of the engineering consequences of an idea for the creation of a new product'.

The well-balanced research and development programme will include:

- (a) Projects aimed at keeping each existing product competitive.
- (b) New product development in conformity with the company's expansion plans, and to replace products which will become obsolete.
- (c) Fundamental research in order to give the company the reputation of being progressive; to ensure that the company has a reasonable chance of keeping ahead of its competitors in product design and in the registration of patent rights; and because it may give rise to data capable of practical application.

Authorization of Research Expenditure

The approval of such a programme must obviously be at senior management, probably board, level. However well supported the applied research projects may be in terms of market potential, the whole programme represents an appropriation from which the benefits are as yet problematical and may not be experienced for a period of some years.

We must remember also that once a company is committed to a programme of research, the tendency will be to find work for the engineering team regardless of immediate profitability. To obtain a team of specialists capable of producing the required results, particularly in the field of fundamental research, is a long and expensive business. Technical personnel are in short supply and it is not practicable to turn the research programme on and off at will.

Once the overall appropriation has been finalized, however, it is obviously desirable to put some control over the costs of individual projects; and revision of these project limits should only be allowed after careful review of the progress being made and the benefits likely to accrue.

An interesting example of the imposition of limits on development expenditure occurs in the motor-car industry, where a vehicle will be designed to fit a desired selling-price bracket; the total cost of engineering effort allowable being

¹ 'Control of Research and Development Costs', by J. B. Quinn, in the *Journal of Accountancy*, October 1960.

such amount as can be amortized within the desired total cost per vehicle over the quantity of vehicles expected to be sold. This total allowance may be broken down through the main parts of the vehicle (engine, transmission, body) to specific components and thus to individual engineering teams. A new vehicle may take up to five years to develop so that control of incurred expenditure must be exercised by converting incurred costs into the price levels ruling at the date the project was authorized.

Government Sponsored Research

In the United Kingdom, basic research is carried out largely in academic institutions or with the support of Government funds; but the Government also pays for some 50 per cent of applied research and development effort, either by the nationalized industries or through contracts placed with private industry.

The touch-stone of profitability is not always applicable to such contracts, particularly to contracts for military research and development; and there has been criticism of unwise duplication of effort, especially on missile development, both in the United States as well as in the United Kingdom (e.g. in a report by the Comptroller-General issued at the end of 1960).

Whether or not research effort is misdirected, the Government makes use of its own estimating staff to check the reasonableness of costs incurred and charged by private sub-contractors. In many cases the traditional system of cost-plus contracting is being replaced by fixed price development contracts, price being based on an appraisal of reasonable costs made by the ministry concerned.

It is difficult to assess how successful fixed prices are, in putting a ceiling on development expenditure. If the outcome of a particular project is of vital importance to the Government, then re-negotiation to a higher price may be necessary to ensure completion of the job. In other cases, as soon as control over actual incurred costs has been abandoned, control is also lost over the sub-contractor's margin of profit.

Accounting for Research and Development Expenditure

Revenue expenditure on scientific research incurred by or on behalf of a trading organization and related to the trade is allowed as an expense in computing profits for taxation under Schedule D. Such expenditure will normally be segregated and written off in the business accounts.

Capital expenditure on scientific research

related to the trade is allowed for tax purposes over five years. The accounting treatment will depend on the normal capitalization policy of the business. Where the acquisition of an asset is related to a specific research project, its cost may well be written off as part of the project costs.

Expenditure on development (as distinct from research) may be handled in a variety of ways, depending on the nature of the work done and the circumstances of the business.

The prudent course would normally be to write off such expenditure as incurred. As 'pre-production expenditure', development costs cannot be said to be incurred in the purchase or manufacture of saleable stock – the normal criterion for the inclusion of costs in the carry over of stock and work in progress. In other words, the level of development expenditure does not depend on the volume of goods produced. However, where production has commenced and firm orders are in hand at a price which is forecast to yield sufficient margin to cover the pre-production expenses, then there would be an arguable case for carrying forward such expenses as part of the value of work in progress. Alternatively, particularly in the early years of a business, development costs might be treated similarly to 'preliminary expenses' or to the costs of an exceptional advertising campaign, and amortized over the period in which the resulting benefit was expected to accrue.

American Practice

United States practice differs from the United Kingdom practice in some respects. The Bureau of International Revenue may require that costs incurred on incomplete projects be capitalized until it is known whether the projects are successful or unsuccessful. Costs incurred on successful projects will remain capitalized but be amortized over the life of the project, that is to say, the period during which development will be valuable to the company. In the case of unpatented developments this period may be indeterminate so that no legal provision would exist for charging the project costs against revenue. However, the idea is gaining acceptance that research is necessary to maintaining the economic health of the business, and providing the company carries on a firm, stable, research and development programme from year to year, the costs of such research will ordinarily be allowed for Federal tax purposes.

Regardless of accounting treatment or tax regulations, in fixing selling prices, all 'non-

manufacturing' expenses should be considered for inclusion in the cost basis, either by identification with the product concerned, or on some equitable basis of apportionment.

Where research and development expenditure is recoverable under a direct contract with the customer, the incurred expenditure to date is properly treated as work in progress against that contract, subject to provision for any anticipated excess of expenditure over the contract cover.

Control of Research and Development Expenditure

For the control of research and development expenditure, therefore, the following minimum desiderata are suggested:

- (a) The research and development staff should be identified with one or more cost centres.
- (b) A market survey should be in existence indicating desirable lines of research.
- (c) The total annual expenditure which could be incurred profitably as a result of this review should be assessed and approved at board level. As indicated earlier, the total sum approved may also include an appropriation for pure research.
- (d) Within the total appropriation cost centre, the managers should establish annual budgets of expenditure on materials, labour and overheads.
- (e) Budgeted costs should be identified with specific research projects and a target should be approved at senior engineering level for each project. It is debatable how far overhead costs should be identified with individual projects. The allocation of overheads to projects is useful in cost finding as a reminder to project engineers that such costs are being incurred, and also to ensure that invoices to the Government, or to other parties under paid development contracts, are supported by a complete cost build-up in the books of account. From the point of view of control, however, the direct cost of labour and materials provides an adequate record, and, in many cases, the figure of labour hours by itself would be sufficient. It may be desired to consider the apportionment of general organization overheads separately from the treatment of development department overheads (such as floor space occupied and related establishment expenses, secretarial and engineering office services, depreciation of capitalized research equipment, library costs, etc.). The considerations outlined above are equally applicable, however, to each type of overhead.

- (f) Periodic checks should be made that expenditure already incurred, plus commitments outstanding, do not exceed the project target. For the purpose of making this comparison it is helpful if both target and actual costs are analysed by progress stages and by the various specialist teams who may be involved in a single project. Whatever degree of analysis is possible, the comparison of cost against target can only be given meaning when linked with an assessment of the progress of work done to date. It is in this respect that the control of engineering costs leans very heavily on subjective estimates. With practice, however, provided the engineering staff can be convinced of the value of the exercise, such estimates of percentage completion can become highly reliable. If the rate of incursion of costs is charted against target plan it is often possible to deduce from the appearance of the chart whether or not progress is being achieved in accordance with a predictable pattern.

A survey published in the United States in 1952¹ showed that 70 per cent of industrial laboratories did use financial budgets, and that of all these about one-third budgeted at cost centre level but not by project; one-third by project only; and one-third by both cost centre and project.

Even where budgets were not broken down by project, time records were normally kept by the workers themselves. Reports on the progress of each project were commonly required, predominantly at monthly or quarterly intervals. No comparable survey of United Kingdom practice appears to be available, and little has been published on the desirable standards of accountancy practice in this field. It is gratifying, therefore, to see that 'The management accountant's influence on research and development' is to be the subject of a paper at the forthcoming Summer School of The Institute of Cost and Works Accountants. One may hope that this will set in motion more detailed discussion of the principles involved and the practical methods in use for the control of this growing area of expenditure.

¹ *Management Controls in Industrial Research Organizations*, by R. N. Anthony and J. S. Day - Harvard University.

Subvention Payment Agreements

by T. J. SOPHIAN

IT is practically impossible to deal with any income tax problem without going beyond the boundaries of the taxing statutes themselves. One finds, therefore, that it is necessary, according to the circumstances, to apply the principles of the general common law governing the law of contract or tort; or even to examine non-fiscal legislation of a special character, such as the Acts for instance dealing with compulsory acquisition of land, the nationalization of the mining industry, and the like.

Indeed, a critical and correct application of the principles falling well outside the boundary of tax legislation may become necessary in order to arrive at a proper conclusion of the tax position itself. It is hardly necessary, therefore, to emphasize the importance of throwing as wide as possible the net of knowledge so as to embrace different aspects of non-fiscal law.

A recent instance is afforded by the case of *Meyer Ltd and Canusa Ltd v. Naylor* (40 A.T.C. 31). That was a case in connection with subvention payments, and it raised the point whether a valid and enforceable contract had been made between the companies concerned, and to determine this question consideration had to be given to the rules governing the law of agency.

Associated Companies

In substance, a subvention payment is one made by one company to relieve, in whole or in part, the losses of another company with whom it is associated. Where a subvention payment complies with all the requirements of Section 20 of the Finance Act, 1953, relief of the kind indicated in that section can be claimed.

The first essential, therefore, is that the companies concerned, the giver and the taker, should be 'associated companies'. For this purpose, companies will be regarded as being 'associated' only if, during the whole period from the beginning of the payee company's accounting period in respect of which the payment is made and the making of the payment, one of them is the subsidiary of the other, or both are subsidiaries of a third company (Section 20 (10)).

In order to be a 'subsidiary' the company must fall within the profits tax definition of 'subsidiary' in Section 42 of the Finance Act, 1938. According to that section (subsection (1)), not

less than three-quarters of the ordinary share capital of the one (the subsidiary) must be owned by the other company, whether directly or through another body corporate, or other bodies corporate. The company concerned in relation to the subvention payment must also be resident in the United Kingdom (Section 20 (9)).

Agreement Essential

In addition to the above essentials with regard to residence and trading in the United Kingdom, and 'association', a further condition which must be fulfilled in order that the subvention payment should rank for relief is that there must be an agreement providing for the paying company to bear or share the losses, or a particular loss, of the payee company (Section 20 (2), Finance Act, 1953).

Yet a further condition is that the payment made must not be one which (apart from Section 20 of the Finance Act, 1953) would be taken into account in computing the profits or gains or losses of either company, nor one on which the payee company would be liable to bear tax by deduction or otherwise.

Hence to make an agreement to effect such payments which would cover a period of time in order to constitute the payments 'annual' payments, from which tax would be deductible at source, would disqualify the payments from the relief granted by Section 20.

Furthermore, the point should not be overlooked that a payment in respect of any accounting period of the payee company will not be regarded as a subvention payment, unless it has been made in or before the second year of assessment following that in which the period ends (proviso to Section 20 (2) of Finance Act, 1953, as amended by Section 23 and Sixth Schedule of Finance Act, 1958).

Where a subvention payment falls within Section 20 of the Finance Act, 1953, the relief given by subsection (1) will be, on the one hand, that the payment will be treated as a trading receipt of the company receiving it, and as if it had been receivable on the *last* day of the accounting period during which such receiving company had the deficit, and on the other hand, as if it were a trading expense of the company making it on the same date as above.

The material facts relating to the question as to whether there had been any valid agreement between the companies concerned in the case of *Meyer Ltd and Canusa Ltd v. Naylor* for the making of the subvention payment were as follows.

Meyer and Canusa were two associated United Kingdom companies. Meyer, the principal company, carried on the business of timber dealers, Canusa that of timber agents and brokers.

Canusa had two associated French companies (subsidiaries) 'Corsebois' and 'Forestiere', carrying on the business of timber merchants. These French companies had, however, a United Kingdom residence, so that they qualified for the purpose of Section 20.

In November 1953 one, Green, who under the foreign law had unlimited powers to carry on the affairs of the French companies, on being recalled from France, delegated his powers in relation to the foreign companies to Peter Meyer, a director of Meyer, who thereupon assumed full responsibility for the affairs of the foreign companies. The point to be noticed at this stage is that Peter Meyer, it seems, had no power to enter into any binding agreement, such as to bind either of the French companies, since the powers of control over the foreign companies had, according to the French law, only been delegated to Green, who accordingly had no power to delegate any such authority to Peter Meyer. In this state of affairs the English company, Canusa, purported to enter into an agreement with the French companies 'Corsebois' and 'Forestiere', in which the English company was to make payments in respect of the losses of the French companies, which the latter would later repay in the event of their making profits in the future.

The agreement on behalf of the English company was made by one, Heal, who was secretary of the English company and who therefore, it seems, had authority to bind it; and on behalf of the French companies, it was purported to be made by Peter Meyer, to whom Green had delegated the power of management over the French companies. This 'agreement' was recorded on November 18th, 1953, at a directors' meeting of the English companies.

The Court took the view, on the facts, that Peter Meyer had no authority to bind the French company, 'Corsebois'.

That company, of course, may have been estopped from denying such authority, had it held out Peter Meyer to the English company, Canusa, as a person who had authority to bind it. But, even if it had done so, the argument fell to the ground because of the fact that the English com-

pany, Canusa, held all the shares of the French company 'Corsebois', so that it was to be presumed to be fully acquainted with the affairs and internal management of 'Corsebois', and accordingly precluded from alleging that it was unaware of the lack of authority on the part of Peter Meyer to bind 'Corsebois'.

As the essential condition that there should be an agreement for the making and the receiving of the payments between the companies concerned was lacking, the relief that otherwise might have been obtained under Section 20 was refused to the companies for the relevant period, i.e. the year 1953-54. The companies incidentally, it may be noted, put their house in order for later periods by taking the necessary steps to ensure that binding agreements were entered into for such periods.

Meaning of Agreement

One point of considerable importance which did not fall to be definitely decided, because of the view taken by the Court of the facts (referred to above), was in relation to the meaning of 'agreement' in Section 20 (2) of the Finance Act, 1953. It was suggested on behalf of the companies that 'agreement' should be construed in a loose sense, so as to include even one which would not give rise to any legal rights or obligations. In other words, therefore, the suggestion in effect would be that even a 'gentleman's agreement' would fall within the scope of the section.

However, a word in a statute cannot be construed otherwise than in its normal, ordinary sense, unless of course the context itself indicates that a looser interpretation must be given. Section 20 (2), it is submitted, is perfectly clear in the language that is used, and as one is construing an Act of Parliament in which it is only to be expected that terms used are to be given their ordinary legal interpretation, there is only one possible meaning to be given to the word 'agreement' and that is an agreement in the legal sense.

Then it has been suggested that to construe 'agreement' strictly may prevent an agreement being made to cover a period of time, such as to render the payments annual, in respect of which tax would be deductible at the source, with the result that no relief would ensue.

However that may be, the short answer is that one must read the section according to the language used, and if it is likely to have inconvenient results, it is for the taxpayer and his advisers to take such steps as may be necessary in connection with the drafting of the agreement and otherwise, so as to avoid such results.

Investment in Current Assets

USING CAPITAL EFFECTIVELY

by W. L. SPALDING, B.Sc.(Econ.), C.A., F.C.W.A., F.C.I.S.

THIS paper is written from the viewpoint of an accountant in industry and is concerned with the attainment of an economic level of investment in net current assets in relation to the level of activity of a manufacturing concern. Any proposal aimed at minimizing investment in current or other assets must of course be related to its probable effect on the amount of profit earned and to the rate of return on capital employed.

For each category comprised within the description of 'net current assets' the amount to be invested should be closely related to the volume and rate of flow of the elements of cost passing through the business. For any accounting period it is possible to think of stocks, debtors, creditors or cash as moving in the following way, viz.: balance at start, plus inflow, less outflow equals balance at end.

The preparation of budgets covering the operation of the business for a period ahead will make information available which can be used to produce estimated control accounts for stocks, debtors, creditors and cash on a full double entry basis, indicating the balances to be expected on these control accounts at future dates, as a consequence of the operation of the above equation. The expected future balance is, of course, no mere consequence. Its amount must be planned and if it appears that it will be unsatisfactory, then action must be taken to alter the elements on the other side of the equation, which are its cause.

It follows that when a comparison is made between the budgeted and the actual investment in stock, debtors or cash, or in the negative investment in creditors, the difference can be expressed in the following way.

		Budget	Actual	Difference
Balance at start	..	100	95	- 5
Inflow	..	50	47	- 3
		150	142	- 8
Outflow	..	70	74	- 4
Balance at end	..	80	68	- 12

It is also apparent that the balance at the end, whether budgeted or actual, can be expressed as a ratio in relation to inflow or outflow of the period; and it can be expressed in relation to one or more past periods, particularly for comparison with budgeted or actual inflow, and in relation to one or more future periods for comparison with budgeted outflow. Any such ratio can, it is apparent, be expressed in terms of time.

Normally a ratio related to expected future outflow will be most useful for assessing whether stocks on hand represent about the right amount of investment. This also is true of cash. In the cases of debtors and creditors the ratio will usually be based upon past inflow.

The accountant will be concerned mainly with ratios relating to broad categories, e.g. finished goods or export debtors, but it will be appreciated that ratios can be calculated for the individual constituents of these broad categories. If a ratio for a broad category is unsatisfactory the next step may be to subdivide into subsidiary categories and calculate detailed ratios to find the source of the trouble.

The ratios shown in Table 1 are based upon averages over the previous year. It is necessary in practice to look to the much shorter periods either of past inflow or future outflow equivalent to the balance being considered. Although the ratios shown are based on months, it may be preferable in many cases to base the ratios on weeks or working days. In some cases, particularly as regards stock, the ratio may be expressed as x times per annum.

In preparing budgets which attempt to assess probable investment in net current assets or in seeking to calculate a fair time ratio to be used as a guide for any particular category of current asset, the accountant will on any first attempt, find it wise to analyse figures over several past years, in order to give him a picture of what has happened in the business. With a knowledge of the influences which helped to shape these figures he will then more readily make a reliable assessment of the future, particularly where seasonal influences must be taken into account.

Stocks and Work in Progress

The control of the amount invested in stocks and work in progress will not, as a rule, rest with the accountant in industry, but he will often be responsible for presenting information regarding the amount of that investment in such a way as to indicate whether it is too high or too low. It may also be a part of his duty to advise on and encourage the use of practices which will keep stocks at a satisfactory level. This level would be one which represented a balance between the need on the one hand to conserve resources and on the other to avoid hold up in production or loss of remunerative sales.

To carry out his work well it will be necessary for the accountant to have a knowledge of the length of the normal time-cycle involved in the production of the goods concerned, from raw material ordering to

Table I

EXAMPLES OF RATIOS

Current Assets					Balance £		Base £	Ratio (Monthly Basis)
Raw Material Stock	..	..	..	50,000	Monthly consumption	..	25,000	2:1
Work in progress:								
Material content	..	..	..	25,000	Monthly consumption issued at			
Direct wages and variable overheads	..	..	..	10,000	start, £25,000 plus monthly			
					input (£20,000 half manufac-			
				35,000	tured) £10,000	..	35,000	1:1
Finished stocks, valued without fixed over-					Materials consumption per			
heads	..	..	..	90,000	month £25,000 plus direct			
					wages and variable overheads			
Trade debtors	..	..	..	140,000	£20,000	..	45,000	2:1
					Sales per month	..	60,000	2.33:1
Trade creditors	..	..	..	52,500	Materials per month £25,000			
					plus other bought ledger items			
Cash	..	..	..	20,000	per month, say £10,000	..	35,000	1.5:1
					Payments per month, say	..	59,000	0.33:1

raw material delivery; from input into store till issue to production; from input into factory till completion as finished goods, with possible subdivision to individual processes or movement into intermediate stores; and from entry into finished goods store till outwards delivery.

Raw Materials

On first starting to establish an overall time ratio for raw materials, with a view to using it in budgeting, the accountant will be guided mainly by the ratios already calculated as at previous dates. He will also look particularly closely at some of the items representing the largest investment and will try to establish for them an attainable ratio. In doing so he will have to consider what is an economic minimum quantity for any one purchase, the frequency with which deliveries can be made by the supplier, whether or not he is geographically near or distant, and the hazards involved in the transit of the goods to the buyer's store. He will also have to consider the space available for storage, the length of time required for opening of parcels and checking that the goods are of satisfactory quality and that the quantities are correct. The accountant will also have to consider the frequency with which issues are made to production and the economic size of any individual issue for production.

Another guide to the calculation of a suitable ratio may be found from an already established system of minimum and maximum raw material stocks. Provided that revision of these minima and maxima is

properly done he may be able to use the average, or some settled proportion of the average, as a base for each of the items contained in the stock.

At a later stage in the development of a system of control greater economy in investment will be sought. The aim will be to reach a position in which no stocks are held of items unlikely to be required, and where, for items in current use, the stocks held vary between a maximum slightly in excess of inward delivery quantity to a minimum representing the essential safety margin required to avoid risk of stopping production. This minimum would be reached just before the next inward delivery, and the maximum reached just after inward delivery.

To achieve this minimum investment a detailed study of past inflow, outflow and balance figures would be essential. It would also be necessary to examine in the light of probable future production whether the ideal minimum investment indicated by past experience would require modification.

Where materials are required only at infrequent intervals for production whose commencing date is known in advance, these should be ordered for inward delivery only a very short time before actually required for issue. The quantity ordered in such a case should be no more than is reasonably necessary to give a predetermined safety factor for scrap or rejections. In this case the stock on hand should vary from order quantity down to almost zero.

Where part of the production consists of orders taken for immediate execution the level of raw material stock required may be relatively high. Past

experience may indicate the minimum stock level at which it is likely that orders will not be lost because of shortage of materials. In such a case selling prices might be able to bear an extra loading for the financing of the heavier than average stocks.

Other factors to be considered in assessing how much should be invested in certain types of stock are perishability, fashion change, and whether the goods concerned are standard or non-standard as constituents of a number of products.

It is important that a designated officer of the company should be responsible for continuous review of slow moving or dormant items, so that decisions are made without serious delay either to incorporate in some specially made product for which a definite sale is envisaged; or to sell the material at the best price obtainable; or to hold in the reasonable expectation that a sales order will be received within a certain time for which the material will be used. Return to the supplier may sometimes also be possible.

Where dormant stocks are a serious problem it may be desirable to establish a separate accounting control total over these. Similarly it may be desirable to have a number of separate raw material control accounts, each separate account containing items with a similar time ratio.

Persons responsible for control of stock, particularly where it is perishable or subject to fashion change, should be made aware of the cost of holding stock. Allowing for interest at 6 per cent, and the cost of premises, staff and insurance, it is probable that the total cost is seldom less than 10 per cent per annum. Where goods have to be disposed of at a cut price, the cost can of course be much greater.

The success of plans for keeping raw material stocks to a satisfactory level depends very largely upon co-operation between buyers, stock controllers and the persons engaged upon control of production. By examination of the reasons for differences between budgeted stocks and actual and by study of time ratios achieved against those theoretically attainable, the accountant can help to an important degree those persons on whom the main responsibility lies.

Work in Progress

The theoretical time-cycle from issue of materials to final delivery to finished goods store is a main basis for the control of the investment in work in progress. This theoretical time includes the length of time required for operations upon the materials, modified to allow for the minimum quantity moved from operation to operation and may also include time spent in intermediate stores.

Some of the reasons why the theoretical time is not achieved include defective quality of materials or of workmanship in earlier processes, lack of balance in the labour force, machine breakdown, giving priority to special rush orders, and inadequate supervision so that jobs are not done in proper sequence or are not passed promptly to the next operation.

The major responsibility must lie with the staff responsible for planning and progressing the work through the factory. They should identify possible bottlenecks in advance and make plans for overcoming them, if necessary by temporary overtime or even by subcontracting. Small buffer stocks in intermediate stores may also be used to ensure continuity of production.

From examination of the details of budgeted output it will be possible to classify probable work in progress in relation to the theoretical time-cycles of each of the main types of work. Basic figures expressed as quantities can then be evaluated into money terms as material, labour, and overhead. Where the time-cycle is a long one, covering an appreciable number of operations or with intermediate stores, it may be desirable to establish a number of separate time ratios for stages throughout the factory at which accounting for movements to the next stage is in force. In this way a number of separate work in progress accounts will be available giving a greater degree of control over the extent of the investment in particular types of work or in particular departments.

An efficient system of progressing is, however, preferable to an elaborate and detailed recording of movements from one operation to another, and the number of work in progress accounts should be kept to a minimum. The extent to which excessive investment in work in progress has occurred in the past will be a main influence in deciding whether or not there is a need for extensive subdivision of work in progress accounts.

Finished Stocks

Where a business is engaged mainly in producing against orders already received, the investment in finished stocks will be low and manufacture will be planned so that goods are completed only a short time before they are required for delivery.

Where, however, goods are manufactured for stock in the hope of obtaining orders, the stocks held may be very substantial. In such a case the investment in finished stocks may vary much more than the investment in raw materials or work in progress. In this type of business success in achieving minimum investment depends principally upon accurate prediction of the amount that will be sold and the date when it will be delivered. The assessment of the amount of stock to be held of any individual product will take into account the economic batch quantity from production and the minimum economic sales order. Where the trade is a seasonal one it will probably be necessary, under present labour supply conditions, to seek a fairly stable level of production and to start the main delivery season with high stocks, dwindling to a point near the end of the season where stocks are almost, but not quite, insufficient to satisfy sales orders.

The extent of the safety margin to be carried in any particular type of finished goods will depend in part upon the possibility of substitution by a closely

similar product in place of the article which the customer at first requests.

Where stocks are down to the bare minimum or even lower, it will also depend upon the extent of the risk of running out of stock and the loss of 'contribution' occasioned by not making a sale, as compared with the cost of holding slightly larger stocks, which would ensure being able to obtain a sale order, after allowing for possible obsolescence loss. Only by detailed study of past experience of balances of particular types of stock, modified by present expectations as to changes in that pattern in the future, will it be possible to plan to bring stocks to their most economic level. Because of the inherently erratic rate of flow in many cases, it will be extremely difficult to determine that level, but the detailed study should be well worth while. It is probably true to say that many businesses carry stocks much in excess of what is necessary to give them an adequate safety margin and that detailed examination of past and expected future movement of individual items of finished stock could bring much economy in finance.

The accountant may find a system of maximum and minimum stocks in force for finished goods, as for raw materials. This again gives him a starting-point from which to establish ratios and to prepare budgets. The average between maximum and minimum, or some agreed proportion of that average, will be used until more reliable theoretical levels, based upon detailed studies, are available.

An unexpected increase in sales will result in a low stock figure and in a low ratio of stock to sales. If this increase is recognized as establishing a new trend, production will be increased, so that stocks are more than replaced and the usual ratio between stock and sales re-established. The converse will apply when a drop in sales takes place which looks as if it is likely to continue. Production will be decreased and stocks allowed to dwindle until the desired ratio between stock and sales is re-established.

Slow moving stocks of finished goods require the same detailed attention as slow moving raw materials. The case of perishable or fashion goods is particularly important. Loss on sale at a cut price, plus stock-holding costs till that sale is achieved, may far exceed the 'contribution' that the goods were expected to earn.

It is, therefore, of vital importance that these items be identified with all possible speed and sold for the best price they will fetch before they deteriorate further. At the same time it is essential to ensure that further production of the same goods is not undertaken without good cause.

After detailed study of all main items of finished stock it will be possible to group these into a number of categories according to the approximate length of time between their receipt into finished goods store and their expected delivery to the customer and to calculate a standard ratio for each category. Separate control accounts for each of these categories will then throw up at each accounting date the total balance of

stock in that category. This balance can then be related to the quantities or amounts expected to be dispatched in the subsequent period or periods and a ratio calculated for comparison with the standard ratio for that category already established.

In such a category where expected sales for the next three months were four, five and six units and the standard ratio was two and half months, this would give a standard figure of twelve units as the amount of stock that should be on hand at the date concerned. If the actual stock was fourteen units, i.e. a surplus of two units, the actual ratio would be two and five-sixths months. This position could be corrected either by delaying production of the next batch of the goods concerned or by seeking to make extra sales.

Debtors

For debtors, creditors and cash, the accountant will normally carry much greater responsibility than for stocks. In any particular market for a broad category of goods, it is customary for specified terms of credit to be laid down covering all or most of the sales. It is, therefore, much easier to assess the amount of the total investment in debtors which can be regarded as satisfactory. Total debts outstanding can be related to the sales of the immediately preceding period or periods, an actual ratio determined and that ratio compared with the nominal length of credit granted to the customers. Where sales are made on different terms of credit, as for instance often applies with exports, separate ledgers, with their own control accounts, should be kept.

In order to control the amount invested in debtors, it is also necessary to establish a system of credit control. Information must be obtained from which it can be decided to whom it is justifiable to extend credit and its maximum amount. When a customer wishes to place an order a check will be made against the authorized terms and the current state of the customer's balance to ensure that the order can be safely accepted and delivered.

Sales invoices and credit notes must be prepared promptly. All entries on sales ledgers, including those for cash and discount, should be posted to the ledgers with a minimum of delay, and statements should go out speedily at the end of each month or other regular interval. It is essential to identify at once the items cleared by any payment received and to take up immediately with the customer any queries arising from the remittance. If this is done, the constitution of the balance on any ledger account should always be apparent from the account, or some special ancillary record where the account is a complex one. The analysis of the total balance on an account by months of origin is normally essential.

Where an account or part of an account becomes overdue it is necessary to have a system of reminders at frequent intervals and of increasing firmness to ensure that the customer pays without serious delay. When reminders are ignored, it will often become

Table 2

OVERALL AGE OF TOTAL DEBTS						Net sales for month	Ratio
					Due £	£	
June invoices due	..	..	..	..	24,500	25,000	·98 months
May	..	..	..	..	16,000	32,000	·50
						<hr/>	
						40,500	1·48
Overdue - April	..	..	..	..	4,000	28,000	·14
March (deliveries stopped)	..	..	..	..	1,000	30,000	·03
						<hr/>	
						45,500	1·65
Earlier with debt collectors	..	..	..	..	2,500	say 30,000 average	·08
Earlier bankruptcies	..	..	..	..	1,200	say 30,000 average	·04
						<hr/>	
Total due June 30th	..	..	..	..	£49,200		1·77 months

necessary to stop further deliveries until a satisfactory payment is made against the old debt. It may also become necessary, if no payment is made or promised, to take further steps, such as putting the debt into the hands of a collection agency, or solicitors, to enforce payment.

Where the amounts involved are material it may be advisable to have separate ledgers with their own individual control totals for debts where bankruptcy has taken place and a dividend is awaited; and debts where collection has been entrusted to a solicitor or debt collection agency. By segregation in this way, a clearer picture is obtained of the ratio applicable to the current debts which the company's own accountant is seeking to collect.

The overall age of total debts owing may be calculated by listing all debts due according to the month of origin of the constituent parts of each balance. Where the normal credit terms are for payment to be made by the end of the calendar month subsequent to the month in which delivery was made, a summary of the position might be indicated as in Table 2.

Where purchase tax is chargeable the figure of net sales for any month to be used would include the net tax debited to customers for that month.

At a time such as mid-month when detailed analysis of debts by month of origin was not available a reasonably close approximation could be obtained in the following way:

	£	
Total debts owing	62,000	
Current month to date (15th)	17,000	·50 month
<hr/>		
Previous month	45,000	
	29,000	1·00 month
<hr/>		
Next earlier month	£24,000	16,000
		·67 month
<hr/>		
		2·17 months

Export sales are sometimes made on a wide variety of terms. In such cases segregation by the terms of credit into separate ledger totals will be helpful.

Sometimes large contracts payable by instalments involve credit for several years. The price fixed in these cases should be sufficiently high, not only to cover export credit insurance, but also to cover a satisfactory rate of interest on the diminishing balance of debt expected to be outstanding.

One way in which a reduction in debtors may sometimes be achieved is by offering alternative discount terms, e.g. either $3\frac{1}{2}$ per cent for payment in ten days after invoice, or $2\frac{1}{2}$ per cent at the end of the month subsequent to that in which delivery is made. An appreciable proportion of customers having sufficient liquid funds will take advantage of the higher discount terms and will pay promptly. The payment almost two months earlier in return for an extra $\frac{1}{2}$ per cent can be looked on as equivalent to an interest rate of about 6 per cent per annum. Where the goods concerned are subject to purchase tax, the higher discount rate, if freely available to all customers, will result in a reduction of the amount chargeable for purchase tax and may make the goods more competitive than those of another trader who does not offer alternative discount terms.

Short-term Creditors

Short-term creditors can be considered as a negative form of debtors. The main creditors in most businesses are trade creditors for goods and services. The credit terms normally available to business firms are a result partly of competition between sellers in the same market and partly a consequence of the inconvenience to both parties in requiring cash against goods at or before delivery. Because a buyers' market is more common than a sellers' one, the average period of credit taken on inter-business transactions is higher than is required solely on grounds of convenience and often represents about two months as compared with the nominal period of one and a half months implied in respect of goods payable at the end of the month subsequent to the month of delivery. Wherever satisfactory discount terms can be obtained from suppliers it is of great importance to ensure that payment is made not later than the last date on which

full discount will be allowed. Where creditors are tolerant this may be slightly later than the nominal final date for the discount.

For more effective control it may be advisable to segregate creditor accounts bearing varying rates of discount into separate ledgers according to the discount rate. In this way it will be easier to see that maximum discounts have been obtained and to watch the ratio of amounts owing in relation to purchases of the most recent months.

Where terms are 'net', payment should be made on the due date, but a short delay will not usually involve any penalty. A company which is short of cash may be tempted to delay paying net creditors for a substantial period but this is unwise, for deliveries of further goods may well be withheld with consequent upset of production, or further sales will be made only at prices which more than cover the interest cost to the creditor of the debtor's bad habits. In addition, the bad reputation of the slow payer will soon become known to a wide circle of other businesses, some of whom may be potential suppliers and who will take his reputation into account when quoting to him. There is little doubt that it is not only honourable to pay a creditor when his debt falls due but also that in the long run it is the more profitable course of conduct.

One of the responsibilities of the accountant in seeking to have payments made on time is to see that invoices and credit notes are checked without delay. Where queries arise on particular items he must try to ensure that the receiving departments clear up these queries as quickly as possible with the suppliers. The accountant must see to it that items on which no queries arise are paid on the due date and should not attempt to delay payment of the whole of an account, merely because the position of a few items under query has not yet been clarified.

Stress has been laid on payment being made in sufficient time to obtain maximum discounts. It should also be pointed out that there is no justification for early payment and the accountant must ensure that junior staff do not push through payments before they are due. Where indigent creditors ask for early payment, and it is possible to accede, suitably advantageous discount terms should be demanded.

Apart from trade creditors, the short-term liabilities will include a variety of overhead items such as accrued salaries, holiday pay, and fixed overhead items such as rates and insurance. Due dates will be known in advance and it is possible to assess with considerable accuracy the amount likely to be outstanding at any date. Control by comparison of budget against actual liability will be simple. A corresponding situation will arise with minor pre-payments which form part of the total debtors figure.

In some businesses purchase tax is a major creditor item. It is due four times per annum at the beginning of May, August, November and February, in relation to the quarters to March 31st, June 30th, September 30th, and December 31st. The effect is that on average

two and a half months' credit is allowed. In most trades selling on monthly terms this credit period of two and a half months is satisfactory, but in a period of trade recession, a company may have to provide some finance for the Customs and Excise for which it receives no interest.

Income tax and profits tax are other current liabilities where large sums may fall due on dates which can be forecast in advance. Owing to the time taken to negotiate complex computations the effective credit period on part of the liability may sometimes be substantial. Provisional payments on account will usually leave a margin in favour of the taxpayer. A taxpayer who delays payment to the Inland Revenue beyond three months after the due date on a sum exceeding £1,000 will find he must pay interest from the due date and not merely from the end of the three-month period.

Cash at Bank and on Hand

As with debtors and creditors the supervision of the cash position will normally fall within the accountant's field. It is, however, much more difficult to control than debtors or creditors, since the cash position at any point in time is the consequence of the whole of the varied receipts and payments of the company.

The amounts entering into the annual and short-term cash budgets will include the amounts of cash shown in the debtors and creditors total control accounts. The cash budgets must also take account at the appropriate dates not only of wages and salaries and capital expenditure but also of taxation and dividends.

Acceleration of collection of debts receivable may in some cases be arranged by obtaining and discounting bills receivable. Delay in payment to creditors may also in some cases be obtained by acceptance of bills payable.

Although short-term cash budgets will normally be prepared in relation to the usual monthly dates it may sometimes be necessary, under conditions of cash shortage, to look very carefully at some other regular date within the month at which the heaviest volume of payments is due.

Where appreciable unexpected changes in volume of business or in price levels take place, revision of cash budgets will become necessary. A low ratio of cash to current liabilities is not necessarily an indication of inability to pay debts owing as they fall due. Large sums may be receivable immediately after the date concerned. It is, however, of supreme importance that cash budget calculations are made with the greatest care and that a sufficient safety margin of cash or unutilized borrowing capacity is always available. If plans are being made which look as if they will take away that safety margin, the accountant must make it abundantly clear to management that additional finance must be obtained, and if his warnings are unheeded, that he cannot accept responsibility for the continued ability of the company to pay its debts when due.

Table 3

ASSESSMENT OF FUTURE CASH POSITION									
							Base year £	Percentage change	Future year £
Pre-tax profits .. .. .	..	..	..	..	..	..	100	+25%	125
Depreciation chargeable for year .. .. .	..	..	..	..	..	..	20	+50%	30
Less tax payable related to profits of previous year ..									155
									50
									105
Net Dividends payable during year - Pref. .. .. .	..	..	..	..	..	..			5
Ordinary - final of previous year .. .. .	..	..	..	..	..	..			10
Ordinary - interim of current year .. .. .	..	..	..	..	..	..			8
									23
									82
Stock increase .. .. .	..	..	..	..	..	..	400	+20%	80
Debtors increase .. .. .	..	..	..	..	..	..	300	+20%	60
									140
Less creditors increase .. .. .	..	..	..	..	..	..	250	+20%	50
									90
Deficiency at this point .. .. .	..	..	..	..	..	..			8
Gross capital expenditure of the year, less expected cash realizations from fixed asset disposals .. .. .	..	..	..	..	..	..			100
Total deficiency of the year .. .. .	..	..	..	..	..	..			108
Cash available at start of the year .. .. .	..	..	..	..	..	..			20
Additional finance required .. .. .	..	..	..	..	..	..			£88

Where approximate indications of future sales turnover, capital expenditure, and expected profit are known, but other details are not available, an assessment of the future cash position can be made as shown in Table 3.

This type of calculation can also be most useful where it is desired to make an approximate calculation as to the proportion of an expansion or capital expenditure programme which it is possible to finance from the normal cash flow of the business.

It will also indicate whether surplus cash resources are likely to emerge and earlier thought can therefore be given to the manner in which they should be utilized. Where surplus cash is likely to be available only for a short period, seven-day bank deposits are a suitable investment. In a case where a longer term surplus will be available tax reserve certificates should always be considered. Since these certificates earn 3 per cent free of tax¹ for up to two years if applied to payment of current income tax or profits tax they can be a most satisfactory investment for a company which would pay 10s 9d in the £ on other forms of income.

Management of the cash position, with its accompanying possibilities of earning or saving interest, is one of the most vital duties of the accountant in industry. He must never let the company get into a position where it cannot pay its debts. To do so may well imperil its very existence. Where a company is

expanding, his skill in finding ways of overcoming threatened shortage of cash may be of the greatest possible importance. He must always think ahead, knowing how he will deal with the next difficult period, keeping in hand reserves of unutilized borrowing capacity or readily realizable assets which he can use if it becomes essential to do so.

Conclusion

From the foregoing it will have been appreciated that the most economical use of the capital employed in a company's net current assets will be based mainly upon reliable budgets, both long term and short. The accountant will compare the actual investment with that budgeted for at each accounting date and will analyse differences to ascertain whether they arise from the inflow or the outflow element. In addition he will seek to establish standard time ratios for his particular business for each broad category of current assets and current liabilities. These standard time ratios will be such as to permit no more than a minimum safety margin designed to ensure that continuity of production will be maintained and that profitable sales orders will not be turned away.

Most important perhaps of all the accountant's duties in relation to current assets is that he must with substantial accuracy predict the balance of cash available and ensure that the small safety margin permitted to him is none the less sufficient to deal with all the payments the company must make as and when they fall due.

¹ Interest on tax reserve certificates was increased to 3½ per cent on August 12th, 1961

The House of GEE

THE removal of the offices of *The Accountant* with those of the old-established City publishing house of Gee & Co (Publishers) Limited to up-to-date new premises at 151 Strand, constitutes a further advance in the progress of the enterprise which began not far short of a century ago with the launching of a professional journal for accountants. It was in October 1874, at 62 Gracechurch Street in the City of London that Alfred Gee, founder of the House of Gee, published the first issue of *The Accountant*. Such was the success of the venture that after the initial three monthly issues, *The Accountant* was transformed in January 1875 into a weekly publication.

By its unremitting and forthright efforts to elevate and develop the status and standards of the profession of accountancy in those early days, *The Accountant* did much to set the climate for the formation, in 1880, of The Institute of Chartered Accountants in England and Wales. This event, in turn, brought recognition of the paper as the organ of the accountancy profession which over the years has been enhanced by its long standing, its independent status and its unique position as the world's only weekly accountancy publication.

Well-known Authors

For the first ten years *The Accountant* had been printed and published by another firm but it was not long before Gee & Co set up their own printing works, acquiring a reputation as legal, commercial and general printers. When in 1884 it took over the publishing of the paper, it also began to develop a publishing business, specializing in accountancy and legal texts. Today, the house numbers among its authors such well-known names as Dicksee, Plender, Rowland and Magee, Murray and Carter, Cutforth, Garnsey, Robson, Kettle and many others. But to return to the Gee family: it speaks much for Alfred's versatility and ability that besides editing this new journal for accountants, he was also studying law. When, before long, he was called to the Bar, he left his brother, Robert, as sole proprietor and editor of *The Accountant*.

Lionel Gee, who in 1913 succeeded his father as managing director and editor, saw the beginning of the City Library at Basinghall Street – a department which has been immensely successful, not only as a place where practitioners and students may browse among the well-stocked shelves, but in increasing the firm's export of British accounting books, particularly to the United States and Commonwealth countries. At the modern, attractive premises in the

Strand, the City Library has the scope to expand and increase considerably the number of books on view and in stock.

The determination of the founder of the company and of *The Accountant* to serve the accountancy profession has been handed on and has grown with the development of the firm. After the death of



The House of Gee – 151 Strand

Departments: basement – Trade Counter; ground floor – The City Library; first floor – *The Accountant* Editorial; second floor – Advertisement Offices; third floor – Secretarial; fourth floor – Subscriptions and Accounts.

Lionel Gee in 1937, the board of directors was re-constituted with the late Ronald Staples as chairman, managing director and editor-in-chief, and it was under his guidance that the company surmounted the difficult war years during which the printing works were totally destroyed by enemy action. Since Ronald Staples' death in 1957, these directive positions have been held by Mr Percy F. Hughes. The editorship of *The Accountant* after Lionel Gee's death, passed to his assistant, Miss Vera Snelling, and shortly after her retirement in 1946 to Mr Derek du Pré. Mr Arthur E. Webb has been editor since 1956 when Mr du Pré accepted the appointment as secretary of the Institute of Cost and Works Accountants.

Besides *The Accountant*, Gee's periodical publications include the popular *Accountants' Diaries* series, which is almost as long-established as the journal itself, and *The Annotated Tax Cases*, an accepted source of reference of all income tax cases decided in the Courts of England and Scotland, founded in 1922.

With a view to increasing the usefulness of *The Accountant* to overseas readers an Airmail Edition was introduced in 1955 – a service which has been

greatly appreciated. Another striking development took place in 1954 when *The Accountant* Annual Awards were inaugurated with the object of encouraging a higher standard in the published reports and accounts of public companies. A panel of expert judges has been set up and each year two awards, in the form of specially designed silver sconces, are made to the successful companies. The presentation ceremony has become an annual event attended by leading personalities from the accountancy profession, together with representatives of other professions, industry, commerce and public life in general.

Since those early days at Gracechurch Street, the House of Gee has had a considerable number of moves, being at different times in Moor Lane, Telegraph Street, Moorgate, Queen Victoria Street, Kirby Street, Basinghall Street; *The Accountant* offices additionally having been at Uckfield and St Albans during the last war, Baker Street and Drapers' Gardens. The house has lived through two wars and though, as already stated, during the last war the printing offices and works in Kirby Street were completely demolished, its proud boast is that *The Accountant* – with its maxim of service to the profession – even then did not fail to appear.

Weekly Notes

The Association's Examination Results

NINE hundred and eight candidates out of a total of 2,530 satisfied the examiners in the June 1961 examinations of The Association of Certified and Corporate Accountants – the first to be held under the new syllabus announced at the end of 1959 (*The Accountant*, November 21st, 1959, page 475).

The division of the Final examination into two sections continues with, however, a rearrangement of papers. The Intermediate is now also in two sections; these are reflected in the present results side by side with those accruing from the Intermediate held under the old syllabus for the last time at these examinations.

There were 325 candidates in Section I of the Final, of whom 85 (26 per cent) passed and 240 failed. The First Place and Prize were won by Mr D. I. Miles, of Maldon; the second place by Mr G. A. Barwick of London, and the third place by Major R. E. Petty, of Taunton. In Section II, 342 candidates sat of whom 101 (29 per cent) were successful and 241 failed. The First Place and Prize were won by Mr T. J. Thomas, of Swansea; the second place by Mr C. M. Mistry, of London, and the third place by Mr I. Vickers, of Bishop Auckland.

In the Intermediate examination (Old Syllabus) there were 611 candidates of whom 157 (26 per cent) passed. First Place was won by Mr L. J. Payne, of Bromley. Mr R. L. Lewis (Birmingham), Mr F. C. B. Clinton (London) and Mr M. J. Davey (Nenagh) took second, third and fourth places, respectively. A total of 858 candidates sat for Section I of the Intermediate (New Syllabus), of whom 423 (49 per cent) were successful. First Place and Prize were won by Mr M. F. Kelleher, of Cork, with Mr A. Teuma, of London, in second place, Mr S. F. Captain, of London, in third place, and Mr T. A. Busby, of Enfield, fourth. In Section II, 285 candidates sat of whom 107 (38 per cent) were successful. The first Place and Prize being won by Mr C. W. Brierley, of Egham. Mr P. A. Bellerby (London) was second and Major F. J. P. Prothero (London) was third.

In the Preliminary examination 35 candidates (32 per cent) out of 109 were successful.

The names of the successful candidates in Sections I and II of the Final, together with a full summary of the results, appear elsewhere in this issue.

Economic Planning

THE Government's attempt to find a long-term solution to the country's recurrent economic crises got off to a good start last week, though the going must be expected to become a good deal rougher when the details of the proposed National Economic Council and its method of operation are put forward next month. In the meeting which the Chancellor of the Exchequer held last week with the

Federation of British Industries and the T.U.C., it was somewhat paradoxically the former which appeared to give the greater welcome to the general idea of planning. The T.U.C. which has of course for a long time advocated planning by controls is probably not yet convinced that what the Chancellor has in mind constitutes planning in the sense in which they understand it.

Moreover since one of the aims of long-term planning is to relate increases in wages to rises in productivity, the T.U.C. cannot be expected to be over enthusiastic until it is seen whether the employers are willing to accept some similar arrangement for overall profits.

The proposal for a two-tier National Economic Council of which the top tier will consist of the Chancellor as chairman and members from both sides of industry together with some outsiders, is open to attack on the grounds that it is not likely to be able to reach agreement on any of the major issues confronting it. On the other hand, it appears to be the Chancellor's view that the mere fact of collating the future load on the economy, which is likely to be the main task of the lower tier, and of drawing conclusions from this, will permit the necessary adjustments to be made in good time and thus lead to a steadier and possibly, in the long run, more rapid development of the economy.

Building Society Interest Rates

THE August issue of *Building Society Affairs* draws attention to the difficulties created for the societies by the increase in Bank rate to 7 per cent. The returns made by 195 societies whose combined assets represent 77 per cent of the total assets of all building societies in Great Britain, had already shown that the societies were running into a difficult period in the second quarter of this year. Shares and deposits received fell slightly compared with the first quarter, while withdrawals increased resulting in a net gain of £35 million compared with £38 million in both the previous quarter and the second quarter of 1960.

The Building Societies Association recommends that the rate of interest payable by borrowers should be raised to 6½ per cent and that payable on shares in the societies should be increased from 2½ per cent tax free to 3¾ per cent tax free as from October 1st, 1961. Where tax is payable at the standard rate the new figure is equivalent to 6½ per cent but the Council is already worried as to whether this rate will prove sufficient to attract the necessary funds if Bank rate remains for any length of time at 7 per cent. They point out that the societies had to contend with a similar situation between September 1957 and March 1958, but hopes of avoiding a further increase in rates charged to borrowers depend upon how quickly the economy responds to the stringent remedies which the Chancellor has applied.

The T.U.C. and the Six

AS was expected the T.U.C.'s supplementary report gave qualified approval to the Government's application for membership of the Common Market, though like the Government themselves they consider it impossible to decide whether or not the United Kingdom should join the Community until negotiations have disclosed the terms on which she might join.

In addition to stressing that satisfactory arrangements must be made to meet the special needs of the United Kingdom, the Commonwealth and the Free Trade Association, the General Council say they will apply the test of how entry will affect the well-being of work-people both in this country and the other countries concerned. Two specific issues to which they call attention are the need to protect the poorer sections of the community in Britain against any increase in domestic food prices resulting from changes in agricultural price-support policies; and they would like to see some modification of the Community's plans to bring about the free movement of labour by 1972 or earlier.

The T.U.C. find the Rome treaty unsatisfactory as it stands on the question of full employment and urge that any agreement should require Governments to define their full employment aims and state the methods which they would adopt individually and collectively to attain full employment. When the time for the final decision arrives much will depend on how these issues are judged. Trade unionists, like all the other parties concerned, are unlikely to be able to avoid some sacrifices in the initial stages; what counts is whether these will help to consolidate the country's economic position in the long run.

Are Tax Levels Too High?

FROM the standpoint of the individual citizen the answer to the question 'Are tax levels too high?' would in practically all cases be 'Yes'. In a booklet called *It's your money*, published by Aims of Industry, Professor C. Northcote Parkinson asks whether the level of taxation in this country is not approaching the danger point which caused the collapse of other civilizations.

On the basis of Parkinson's 'Second Law' that 'Expenditure rises to meet income' he suggests a reversal of what he sees as the current fiscal procedure. Instead of adding up the total of departmental demands and adjusting the revenue accordingly, he suggests that the total Government revenue should be assessed at a reasonable proportion of the national income and that expenditure should be related to the income so produced. He assesses 20 per cent of the national income as the reasonable rate of taxation, which compares with an actual figure for national and local taxes combined of 38 per cent in 1959 and as much as 40 per cent in 1950.

Though a proposal to reduce the burden of tax-

tion by half would meet little opposition, there might be greater difficulty in deciding the details of the cuts in expenditure. The circumstances would seem to call for a companion volume from the Professor suggesting how this should be done.

Leasing Industrial Plant

THE formation of the new company, Equipment Leasing Co (ELCO), will extend to a considerable range of industrial plant, facilities which have hitherto been available in Britain only in the case of motor vehicles and some consumer durables. The sponsors of the new company, Lease Plan Inter-

national of New York, Hambros Bank, Phoenix Assurance, and Cable & Wireless (Holdings), consider that the scheme will be of particular advantage to the smaller and medium-sized manufacturers who will no longer have to find the capital cost of the equipment they need (or the down payment in the case of a hire-purchase agreement), and will thus be able to start up, expand or modernize their plant on far smaller capital resources than would otherwise be necessary.

The company is expected to start operations in this country by October 1st and negotiations are said to be in hand to extend its operations to the Continent.

This is My Life . . .

by An Industrious Accountant

CHAPTER 87

OUR auditors' senior assistant, that hawk-eyed enthusiast who is now chairman of the sports section of our local accountants' society, has approached me to help him organize a really eventful year's programme for the society's rugby team. This has functioned spasmodically in the past, and he aims to resurrect it. He has an infectiously happy personality which induces co-operation; hence I was quickly co-opted as assistant-trainer, touch-judge and transport-provider.

I played a lot of rugby in my own student days, in the years when wing forwards were supposed to push; I retain very pleasant memories of my old team. My colleague Ned, normally an artiled clerk of languid and unhurried outlook, was a scrum-half of demoniacal energy and cunning, and in our senior year we arranged a season of events of unprecedented status.

Our first target used always to be the Incorporated men, with whom we played regular blood-matches. The rucks were fierce and ruthless; the side-lines were thick with urging senior partners and assorted executives from all the local industries ('if the chairman phones, say I've gone to a taxation conference'); the vendettas lasted from year to year. I was picked for a senior trial match myself once, and automatically asked my own principal for two afternoons off for practice beforehand. He'd broken a collar-bone at Twickenham himself, and equally automatically granted me three!

Under Ned's captaincy we slaughtered the local legal and insurance fiftens; Ned scored the winning try against a very tough banking team, himself festooned with clutching cashiers, before a stand packed with directors. He always said he must have owed his successful Final exam. to this effort, as he'd

made a shocking mess of his Mercantile Law paper.

We played the Edinburgh lads also, the Friday before Murrayfield, and held them to a spirited draw. The dinner afterwards was superb; the rafters fairly rang with 'If I was a marrying girl', down all its twenty-five lusty verses. We did a Highland reel at the dance later, or at least we tried to - the hospitality was outstanding. The friendliness and the gaiety, the Castle and the War Memorial, coffee at the F. and F.; I still remember them. I exchanged my club tie for a Watsonian's as a final farewell and kept the memento for years.

Our *pièce de résistance*, however, was a match in France, where the firm of one of our members had a branch office, and we travelled a strong team. There was a formal welcome. A reception was held at twelve noon, followed by a full lunch with our opponents and hosts, and the red wine flowed freely. We toasted 'Le Roi' and 'Le President' early in the meal, and then roamed down via 'L'institute' and 'Le contrôleur-général' to 'sweethearts and wives' and 'la belle Fifé'.

Our stalwarts were accustomed to a more austere routine before a match, so we had some misgivings as the burgundy bubbled continuously. Still, if our opponents could take it that way, then we swore that we could too, and we matched them glass for glass. Picture our shock later, when before our bemused gazes on the half-way line there lined up fifteen newcomers, with close-clipped heads and enormous thighs, all clear-eyed, fighting-fit and on their toes.

'Vive la stratégie' muttered Ned, and endeavoured to balance the account by screwing the ball crookedly into every scrum thereafter, a little trick of his which had maddened his opponents for years past. We also had an invisible asset in the shape of my aforesaid principal of Twickenham fame, who was touch-judge for us that day: twice he raised his flag for touch as the flying French left-wing streaked for the corner flag. It was a wonder that the *Entente Cordiale* survived the strain, but as usual, we finished up good friends.

Happy days they were; I look forward to being an equally helpful touch-judge next season.

Finance and Commerce

Principle Maintained

THIS week's reprint is taken from the accounts of The Continental and Industrial Trust Ltd, whose chairman, Mr J. Backhouse, of J. Henry Schroder & Co Ltd, the managers of the Trust, has taken the decisive step of announcing his intention of discontinuing his statement with the accounts.

"The amount of information published in the annual report", he says, "has been increased year by year, so that there is little of interest for me to add in a personal statement. In future, therefore, I do not propose to issue a Chairman's Statement, but any additional information which I should like shareholders to have will be included in the directors' report."

Thus the principle of giving all possible information in and with the accounts is maintained. It is merely a matter of location. Whether it is presented via the report or the statement is not vital although the chairman's statement with the accounts which, in the process of the evolution of company reporting took the place of the chairman's speech at the meeting, has always seemed to have that more personal touch.

Possibly this is a logical trend in investment trust affairs because the business of investment hardly lends itself to the lengthy description of business conditions and future prospects which is to be found (or should be found) in the annual statement of the chairman of a manufacturing or trading company.

THE CONTINENTAL AND INDUSTRIAL TRUST LIMITED AND ITS SUBSIDIARIES REVIEW OF REVENUE AND ASSETS

YEAR ENDED 31st MAY:	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
TOTAL REVENUE	£201,818	253,232	256,305	257,507	279,516	363,910	371,166	405,321	427,170	462,866	551,692	704,376
ALLOCATION OF REVENUE	%	%	%	%	%	%	%	%	%	%	%	%
Expenses	5.0	4.3	4.9	5.2	4.7	3.9	3.9	3.6	3.8	4.0	4.6	3.8
Debt Interest	27.9	22.0	19.0	19.0	17.5	13.4	13.2	13.4	13.9	13.8	13.0	18.2
Taxation	29.8	33.0	35.8	35.1	33.0	37.6	33.6	35.1	34.4	31.2	29.5	29.7
Preference Dividends	15.0	11.6	11.3	11.5	10.8	8.5	8.5	7.8	7.4	7.0	6.1	4.8
Ordinary Dividends	13.6	14.7	17.2	20.7	23.8	24.5	29.8	31.6	33.3	37.4	36.3	35.0
To Reserves	8.7	14.4	11.8	8.5	10.2	12.1	11.0	8.5	7.2	6.6	10.5	8.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earned for Ordinary Shares	8.0%	13.9%	13.5%	12.7%	15.0%	17.9%	19.2%	17.1%	18.2%	18.3%	23.2%	23.6%
Paid on Ordinary Shares	5.0%	7.0%	8.0%	9.0%	11.0%	12.0%	14.0%	14.0%	15.0%	16.0%	18.0%	19.0%
(a) On Capital ranking for dividend. (b) On £1,650,000 Capital. (c) On £1,815,000 Capital. (d) Final dividend paid on £1,375,000 Ordinary Share Capital.												
GROWTH OF ASSETS (£'000)												
Net Assets attributable to:												
Debt Stocks	1,325	1,325	1,325	1,325	1,325	1,325	1,325	1,600	1,600	1,930	1,930	3,140
Preference Shares	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Ordinary Shares	1,357	1,961	1,328	1,684	2,791	4,063	4,307	5,470	4,354	7,252	9,226	12,685
Total Net Assets	3,682	4,286	3,653	4,009	5,116	6,388	6,632	8,070	6,954	10,182	12,156	16,825
Ordinary Share Capital in Issue (£'000)	1,000	1,000	1,050	1,100	1,100	1,100	1,375	1,650	1,650	1,815	1,815	2,117
'Break up' Value per 5s. Ord. Share	6s 10d.	9s. 10d.	6s. 4d.	7s. 8d.	12s. 8d.	18s. 5d.	15s. 8d.	16s. 7d.	13s. 2d.	20s. 0d.	25s. 5d.	29s. 11d.
Amounts subscribed by Shareholders on bonus terms	£50,000	£50,000				£275,000	£550,000		£594,000		£1,996,500	
£100 INVESTED IN ORDINARY SHARES												
Market Value	£100	£130	£125	£132	£214	£267	£371	£498	£418	£661	£858	£1,106
(Assuming that all rights have been sold and the proceeds reinvested in Ordinary Shares)												
Income	£5.7	£8.0	£9.3	£10.5	£12.9	£14.1	£21.4	£24.9	£26.7	£29.4	£34.3	£36.2

Consolidated Balance Sheet 31st May 1961

	1961	1960
£	£	£
ISSUED CAPITAL OF THE CONTINENTAL AND INDUSTRIAL TRUST LIMITED (NOTE 1)		
5½% Cumulative Preferred Stock	1,000,000	1,000,000
Ordinary Shares of 5/- each fully paid	2,117,500	1,815,000
	3,117,500	2,815,000
SHARE PREMIUM ACCOUNT (NOTE 1)	583,000	99,000
AMOUNT CARRIED FORWARD ON REVENUE ACCOUNT	630,350	563,090
	4,330,850	3,477,090
FUTURE INCOME TAX 1962-63	10,380	10,572
SECURED DEBENTURES (NOTE 1)		
5% Redeemable Debenture Stock 1980/85	1,210,000	—
3½% Redeemable Debenture Stock 1965/80	1,605,000	1,605,000
3½% Redeemable Debenture Stock 1955/65	325,000	325,000
	3,140,000	1,930,000
CURRENT LIABILITIES:		
Interest accrued on Debenture Stock—secured	28,958	13,833
Creditors	1,333	2,561
Taxation	14,032	12,168
Preference Dividend, less Income Tax	16,844	16,844
Ordinary Dividends, less Income Tax:		
Second Interim—since paid	—	44,468
Final—proposed	142,666	111,169
Bank Overdraft	—	486,449
	203,833	687,492
CONTINGENT LIABILITIES (NOTE 3)	£7,685,063	£6,105,154

NOTES ON THE ACCOUNTS

1. Following upon the issue to Shareholders on 1st June, 1960 of 1,210,000 additional Ordinary Shares of 5/- each and £1,210,000 5 per cent. Redeemable Debenture Stock 1980/85 in combined units comprising one Ordinary Share of 5/- and £1 nominal Debenture Stock, at a price of 33/- (inclusive of a share premium of 8/-) per combined unit, there has been credited to Share Premium Account an amount of £484,000, thereby increasing the balance on that account to £583,000 as shown in the Balance Sheet.

2. CAPITAL RESERVE

	Parent Company £	Consolidated £
Balance 31st May, 1960	2,238,823	2,245,816
Movements since that date:		
Add: Net Profit on realisations of investments	566,822	596,882
	2,805,645	2,842,698
Deduct: Amount written off investments	112,682	
Share and Debenture issue expenses written off	15,108	15,108
	127,790	127,790
	<u>£2,677,855</u>	<u>£2,714,908</u>

3. There are contingent liabilities in respect of the following:

	£	£
Uncalled capital on investments	66,002	66,002
	(1960—120,860)	120,860
Underwriting contracts	NIL	160,249
	(1960—1,250)	66,089

4. (a) Quoted investments have been valued at middle market prices.

(b) Investments quoted outside the United Kingdom have been converted at the ruling rates of exchange at 31st May, 1961, taking into account the London dollar premium where applicable.

5. Debenture interest and the dividends on Ordinary Shares as shown in the Revenue Account include the sums paid and payable on the new issues referred to in Note 1.

THE CONTINENTAL AND INDUSTRIAL TRUST LIMITED
AND ITS SUBSIDIARIES
Consolidated Revenue Account for the year ended 31st May 1961

	1961 £	1960 £
GROSS INCOME:		
Dividends and Interest	677,309	524,260
Underwriting Commission and Transfer Fees	16,856	18,115
Profit on Realisation of Investments of a Subsidiary Company	10,211	9,317
		<u>551,692</u>
	704,376	
DEDUCT: EXPENSES:		
Fees paid to Directors of the Holding Company	4,463	4,000
Management and office Expenses	22,455	21,710
		<u>25,710</u>
	26,918	
DEDUCT: DEBENTURE INTEREST—GROSS (NOTE 5)		
	677,458	525,982
	128,533	71,562
		<u>454,420</u>
	548,925	
DEDUCT: TAXATION BASED ON THE REVENUE FOR THE YEAR:		
Income Tax (less management expenses claims for the year to 31st May, 1960)	218,881	179,254
Profits Tax	25,460	17,340
		<u>196,594</u>
	244,341	34,000
Less: Double Taxation relief (net)	35,000	162,594
		<u>209,341</u>
	339,584	
Net Revenue of the Group after taxation		
DIVIDENDS, LESS INCOME TAX:		
Paid to Preferred Stockholders	33,687	291,826
		<u>33,687</u>
	305,897	
Net Revenue available for Ordinary Shareholders and Reserves		
Paid and payable to Ordinary Shareholders: (NOTE 5)		
Interim of 8% (4%)	103,758	44,467
Second Interim (4%)		44,468
Proposed Final of 11% (10%)	142,666	111,169
		<u>200,104</u>
	246,424	
		<u>58,035</u>
	59,473	
Balance brought forward from last year:		
Parent Company	509,281	454,509
Subsidiary Companies	53,809	46,758
		<u>503,267</u>
	563,090	
Taxation recovered in respect of previous years		
	7,787	1,788
		<u>£630,350</u>
Total carried forward on Group Accounts		
Balance, Group Revenue carried forward, of which the		
Parent Company accounts for	575,896	509,281
and the Subsidiary Companies account for	54,454	53,809
		<u>£630,350</u>

Twelve-year View

Mr Backhouse refers to the increased amount of information which his company has provided in the annual report year by year. This is largely in the lists of investments and in the review of revenue and assets. Each investment is identified. In Lloyds Bank, for instance, the Trust holds 24,000 £1 shares having a market value at balance-sheet date of £86,400. The holding of fixed interest securities is a comparatively small proportion, just over 4 per cent. The equities are shown under twenty-five headings such as chemical, electrical, shipping, steel. The amount involved under each heading is totalled and the percentage is given of each group total to the total market value. The review of revenue and assets now covers a twelve-year period. Its form is worth noting. In the 1961 column, it will be seen that shareholders subscribed £1,996,500 on bonus terms, to which may be added the fact that in the intervening years five issues were made totalling £1,519,000. The last issue - in June 1960 - was a package of equity and loan capital - 1,210,000 5s Ordinary shares and £1,210,000 5 per cent Redeemable Debenture Stock 1980-85 being offered by way of rights in combined units of one Ordinary and £1 Debenture at 33s, including a share premium of 8s.

Investment Trust Policy

AN interesting aspect of investment trust management is given by Sir Francis M. G. Glyn, chairman of Witan Investment Co Ltd. He points out that the rise in capital values over the past few years has reduced the proportion of assets financed by prior charges. When, at the end of 1960, it appeared that the worst of the industrial recession was over, the board decided it was a suitable time to invest additional funds, at the same time restoring the balance between prior charges and equity. So between April 15th, the date of the accounts, and their publication early in June, the company issued £800,000 6½ per cent Debenture Stock at £99½ per cent.

Why borrow at 6½ per cent, says Sir Francis, when the average return on investments at market values is under 4 per cent? And he explains the investment policy of looking for growth stocks, that the company is not alone in this unceasing search and that, because the demand is so great, market prices frequently discount the future a long way ahead. The price for new money is thus less important than the timing of new investment purchases.

He points out that the investment valuation now published half-yearly is a convenient means by which the company's progress can be measured. The directors, he says, are conscious that if their investment policy is to be justified, the rise in capital values must ultimately be reflected in higher earnings and dividends.

All that, of course, was before the Chancellor's 'Little Budget'.

CITY NOTES

SOME easing of the Berlin tension having been starkly diagnosed, the stock-markets have managed to show to slightly better advantage. Underneath the thin veneer of strength, however, there is still the nagging economic doubt.

The severity of the present restrictions on credit and capital raising are unlikely to be lifted this side of the New Year even though there may be some fractional reduction in Bank rate in the interim.

The clearing banks have already reduced their outstanding advances by over £100 million and pressure at that rate must tell in the long run. Admittedly, severe short-term restrictive measures are necessary, but it is far easier to restrict than to restore.

Short-term restriction of home markets has never yet forced an improvement in exports but authority has apparently yet to grasp the point. Perhaps it will once the proposed National Economic Council gets to work.

The present intention seems to be to have the council in operation before the end of the year and it will be interesting to see whether, with the council in being, economic common sense will still tend to be subordinated to political expediency as the next General Election approaches.

RATES AND PRICES

Closing prices, Wednesday, August 30th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills

June 23	£4 10s 8.47d%	July 28	£6 13s 9.22d%
June 30	£4 10s 8.94d%	Aug. 4	£6 14s 3.33d%
July 7	£4 10s 8.80d%	Aug. 11	£6 14s 8.51d%
July 14	£4 11s 4.47d%	Aug. 18	£6 14s 1.83d%
July 21	£4 12s 5.62d%	Aug. 25	£6 14s 0.12d%

Money Rates

Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6⅞%
Fine Trade Bills		3 months	6½-6⅞%
3 months	7½-8½%	4 months	6½-6⅞%
4 months	7½-8½%	6 months	6½-7%
6 months	8-9%		

Foreign Exchanges

New York	2.80½-½	Frankfurt	11.20½-21½
Montreal	2.89½-½	Milan	1740½-½
Amsterdam	10.11½-½	Oslo	20.01½-½
Brussels	139.63½-½	Paris	13.79½-½
Copenhagen	19.34½-½	Zürich	12.10½-½

Gilt-edged (revised List)

Consols 4%	59½	Funding 3% 59-69	79½
Consols 2½%	39	Savings 3% 60-70	75½
Conversion 5½% 1974	89½	Savings 3% 65-75	67½
Conversion 5% 1971	88½	Savings 2½% 64-67	81½
Conversion 3½% 1969	81½	Treasury 5½% 2008-12	82½
Conversion 3½%	52½xd	Treasury 5% 86-89	81½
Exchequer 5½% 1966	96½	Treasury 3½% 77-80	67½
Funding 5½% 82-84	89½	Treasury 3½% 79-81	66½
Funding 4% 60-90	86½	Treasury 2½%	37½xd
Funding 3½% 99-04	59½	Victory 4%	93½
Funding 3% 66-68	80½	War Loan 3½%	53½

FOR STUDENTS

Sources and Application of Funds

TO enable the management of a company or business to appreciate the movement in funds, a statement showing the source from which additional working capital has been obtained and the application thereof may be prepared. This statement is a classified summary of funds which have become available to the business in between two points of time and the manner in which these funds have been employed. It will therefore assist both the management and the proprietors to appreciate readily the trend in the finances of their business and the reasons for them.

The statement when prepared provides the management with the answers to such questions as:

- (i) Is the working capital increasing or decreasing, and if increasing, from what sources is this increase obtained?
- (ii) Why has the bank overdraft increased, or the balance at the bank diminished despite the profit made?
- (iii) How is the replacement of, or the addition to, fixed assets being financed?

Sources of Finance

Generally speaking, businesses obtain their funds *inter alia* from the following sources:

- (a) Net profit for the period after providing for profits tax and income tax payable thereon.
- (b) Charging depreciation before arriving at profit and other amounts written off assets but not invested outside the business.
- (c) The sale of fixed assets.
- (d) The issue of share or loan capital.
- (e) By increasing the retention of profit to meet future tax liabilities.

- (f) Unusual receipts, e.g. damages recovered by legal action not taken to the credit of profit and loss account.
- (g) Recovery of income tax (e.g. where a loss has been incurred).

Employment of Funds

Funds are employed in the business for the following purposes, *inter alia*:

- (a) The purchase of fixed assets.
- (b) The redemption of loan or share capital (i.e. debentures or redeemable preference shares).
- (c) The payment of dividends, and other cash distributions to shareholders.
- (d) In increasing the business's working capital.
- (e) In unusual payments (i.e. damages payable not debited to profit and loss account).
- (f) Reduction in amounts set aside for future income tax.

The basic documents from which the statement is prepared are the balance sheets of the business at the starting-point of time and the finishing-point of time, together with the revenue statement covering the period between the two balance sheets.

Alternatively, where it is desired to show the movement in liquid assets, the last line of the movement of funds statement will show the increase or decrease in the bank balance.

United Kingdom Taxation

The Institute of Chartered Accountants in England and Wales has recommended that provision should be made for the actual and prospective liability on *all* profits earned to the date of the balance sheet.

BALANCE SHEET

	At March 31st			At March 31st	
	1961	1960		1961	1960
Share Capital:					
Authorized £1 shares £100,000	£	£		£	£
Issued	100,000	75,000	Fixed assets at cost	250,258	200,500
Capital Reserve	20,635	16,000	Less depreciation	89,580	69,000
Revenue Reserves:					
General	43,000	23,000		160,678	131,500
Taxation Equalization	18,000	16,000			
Profit and loss account	21,290	19,680	Trade investments at cost	7,658	8,967
	202,925	149,680			
Set aside for future income tax	16,500	14,000	Current assets:		
Mortgage Loans (Building Society)	28,000	30,068	Stocks	41,924	29,280
Current Liabilities:			Debtors	82,000	62,150
Trade and expense creditors	63,400	47,625	Cash in hand	920	820
Profits tax to date	2,310	1,100	Balance at bank	27,305	15,881
Proposed dividend (net)	7,350	6,125			
	£320,485	£248,598		£320,485	£248,598

Notes:

(1) Additions to fixed assets during the year amounted to £60,000 whilst assets which cost £10,242, book value £9,242, were sold for £13,877.

(2) An investment which cost £6,612 was sold for £5,699 and the loss was written off to profit and loss account.

(3) A new investment was purchased at cost of £5,303.

(4) Accretions to the general and taxation equalization

reserve represented transfers from profit and loss account.

(5) Amounts charged to profit and loss account for taxation on current profits were, Profits tax £2,310, Future taxation £15,880. The difference on the amount set aside for future income tax (£16,500) and the charge for income tax on current profits represents a difference between the amount set aside in 1960 and the tax payable for 1960-61 as ultimately agreed.

Because of this, part of the current profit is retained to meet future income tax commitments. This retention is not disclosed in the current liabilities but at a subsequent date the retention moves in whole, or in part, into the current liabilities without any corresponding debit in the profit and loss account. This, unfortunately, complicates the preparation of the statement. The treatment suggested is to regard the future tax retention as if it were a deferred liability. This treatment enables the working capital to be computed leaving the provision for current taxation in the current liabilities and treating any adjustments to the future tax retention as a source or application of funds.

In preparing a statement of change of working capital to show the final increase or decrease between two

dates, current assets are compared with the current liabilities at the two dates selected. Then it is necessary to prepare a statement listing the sources from which funds have been obtained, and the application of those funds.

Example

From the balance sheet of Victor Ltd, at the foot of the previous page, prepare statements showing:

- The net increase in working capital during the year.*
- The source and application of working capital during that year.*
- The movement in liquid assets during the year.*

SPECIMEN STATEMENTS

(a) STATEMENT OF CHANGE IN WORKING CAPITAL

	1960	1961	Effect on Working Capital	
			Plus	Minus
Current assets:				
Stocks	29,280	41,924	12,644	—
Debtors	62,150	82,000	19,850	—
Cash	820	920	100	—
Balance at Bank ..	15,881	27,305	11,424	—
	<u>£108,131</u>	<u>£152,149</u>		
Current liabilities:				
Creditors	47,625	63,400	—	15,775
Profits tax	1,100	2,310	—	1,210
Proposed dividend ..	6,125	7,350	—	1,225
	<u>£54,850</u>	<u>£73,060</u>	<u>£44,018</u>	<u>£18,210</u>
Net working capital	<u>£53,281</u>	<u>£79,089</u>	= £25,808 increase.	

(b) STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL FOR THE YEAR ENDED MARCH 31st, 1961

	£	£
SOURCE		
Profit for the year	50,063	
Less: Taxation	£18,810	
Less: Adjustment <i>re</i> previous year	620	
	<u>18,190</u>	
		31,873
Depreciation provision retained in the business		21,580
Issue of 25,000 shares of £1		25,000
Sale of investment		5,699
Sale of fixed assets		13,877
Increase in future tax retention		2,500
		<u>100,529</u>
APPLICATION		
Purchase of fixed assets	60,000	
Purchase of trade investment	5,303	
Repayment of mortgage loan	2,068	
Dividend (1961)	7,350	
	<u>74,721</u>	
NET INCREASE OF WORKING CAPITAL		<u>£25,808</u>

(c) STATEMENT SHOWING MOVEMENT IN LIQUID ASSETS YEAR ENDED MARCH 31st, 1961

	£	£
Additional resources:		
Issue of 25,000 shares of £1		25,000
Sale of investment		5,699
Sale of fixed assets		13,877
Profit for the year before taxation		50,063
Depreciation provision retained in the business		21,580
Increase in trade creditors		15,775
		<u>131,994</u>
Utilization of resources:		
Purchase of fixed assets	60,000	
“ of trade investments	5,303	
Increase in stocks	12,644	
“ in debtors	19,850	
Repayment of mortgage loan	2,068	
Payment of Dividend 1960 (net)	6,125	
“ of income tax (£14,000—£620)	13,380	
“ of profits tax	1,100	
		<u>120,470</u>
Balance, represented by increase in cash from £16,701 to £28,225		<u>£11,524</u>

Notes:

(1) The profit for the year to March 1961 is arrived at thus:

	£	£
Increase in Profit and Loss Account		
Balance		1,610
Increase in General Reserve		20,000
“ “ Taxation Equalization Reserve		2,000
Taxation: Profits tax	2,310	
Income tax	15,880	
		<u>18,190</u>
Loss on investment sold		913
Proposed dividend (net)		7,350
		<u>£50,063</u>

(2) The charge for depreciation is:

	£	£
Balance brought forward		69,000
Less: Amount applicable to asset sold:		
Cost	10,242	
Book value	9,242	
		<u>1,000</u>
		68,000
Balance carried forward		<u>89,580</u>
		<u>£21,580</u>

Notes and Notices

PROFESSIONAL NOTICES

MESSRS NORMAN HUNT, HOWSE & Co, Chartered Accountants, of 15 Cromwell Road, South Kensington, London SW7, announce that as from September 1st, 1961, the name of the firm has been changed to NORMAN HUNT, HOWSE & HASLAM, Chartered Accountants. The constitution of the firm remains unchanged.

MESSRS ELLIOTT NORMAN JACOBS & Co, of 31/32 Haymarket, London SW1, announce that as from September 4th, 1961, Mr GEOFFREY P. LEVY, A.C.A., will be taken into partnership. The name of the firm will remain unchanged.

Appointments

Mr L. R. P. Pugh, V.R.D., F.C.A., managing director of Guest Keen Iron & Steel Co Ltd, Cardiff, has been co-opted to the South Wales Executive Committee of the Industrial Association of Wales and Monmouthshire.

Mr F. W. Lindgren, F.C.A., has been appointed a director of Nantyglo & Blaina Estates Ltd.

Mr D. Moate, A.C.A., has been appointed financial director of the Grange Group of companies.

Mr J. M. Harrison, T.D., B.A., F.C.A., has been appointed chairman of Peglers Ltd.

Mr C. C. Miller, B.COM., F.C.A., has been appointed vice-chairman of Delta-Enfield Rolled Metals Ltd, and Mr R. W. Rigg, A.C.A., has been appointed secretary of that company.

Mr A. C. Beaton, B.COM., A.C.W.A., assistant divisional accountant of the Scottish Gas Board's central and northern division, has been appointed area clerical methods officer, based at Board headquarters in Edinburgh.

Mr J. J. Lomax, A.A.C.C.A., assistant secretary of M. Watson & Co (Liverpool) Ltd, has been appointed secretary as from November 1st.

OBITUARY

Thomas Preece Nicholls, F.C.A.

We have learned with regret of the sudden death, on July 31st, of Mr T. P. Nicholls, F.C.A., a former director of Reckitt & Sons Ltd.

Mr Nicholls, who was born in 1893, served his articles with a Birmingham firm of chartered accountants and was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1919. During the First World War he served as an artillery observation officer in France.

For a short time Mr Nicholls was assistant accountant of the Ebbw Vale Steel & Iron Co, and in 1922 he joined John Lysaght Ltd (now part of the Guest, Keen group) as chief accountant and assistant secretary. Seven years later he accepted the post of assistant chief accountant of Reckitt & Sons Ltd, and succeeded to the position of chief accountant of the company in 1934.

In 1947 Mr Nicholls was appointed a local director of Reckitt & Colman Ltd, and in the same year became that company's finance officer. In 1953 he became a director of Reckitt & Sons Ltd and finance officer of Reckitt & Colman Holdings Ltd. In 1958 he retired from office and shortly afterwards transferred his home to Clevedon, Somerset.

In addition to his duties with the Reckitt organization, Mr Nicholls was for many years a member of the Committee of The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants, and in addition was a member of the Taxation and Research Committee of the Institute from 1946 to 1952.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

Members' Dinner

We are asked by the Secretary of the London and District Society of Chartered Accountants to remind members that the annual dinner will be held in the Hall of the Worshipful Company of Carpenters, Throgmorton Avenue, London EC2, on October 26th. Members will receive individual notices towards the end of September; meanwhile, they are asked to note the date in their diaries.

MANCHESTER CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY

Saturday Morning Lectures

A comprehensive programme of Saturday morning lectures designed to give Intermediate and Final students an opportunity of attending lectures on subjects covered by the examination syllabus, will commence at the Chartered Accountants' Hall, 46 Fountain Street, Manchester 2, on September 16th. In addition, a series of preparatory lectures intended for newly-articled clerks and those serving a period of probation with a view to articles, will be held as from November 18th, preceded by two introductory talks on November 11th.

The same Intermediate and Final lectures will be given in Preston, commencing one week later (September 23rd) at the Reform Club, Chapel Street, Preston.

JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SW1

Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

THE INSTITUTE OF INTERNAL AUDITORS

Birmingham Chapter

The first meeting of the 1961-62 session of the Birmingham Chapter of the Institute of Internal Auditors will be held at The Incorporated Auctioneers and Estate Agents Institute, Regent House, St Philip's Place, Birmingham 3, on Thursday, September 14th, commencing at 6.30 p.m. Tea and biscuits will be available from 6 p.m. The meeting will debate the motion - 'That created errors should be introduced in order to test internal control'.

Non-members will be welcome and inquiries regarding membership and activities of the Chapter should be addressed to the honorary secretary, Mr R. C. J. Lucas, West Midlands Gas Board, 39-41 Hagley Road, Birmingham 16.

THE INSTITUTE OF OFFICE MANAGEMENT

Organization and Methods Course

A five-day residential course on organization and methods is to be held at *The Spa Hotel*, Tunbridge Wells, from October 22nd-28th.

Arranged by The Institute of Office Management, the course is designed to give senior executives responsible for office management an introduction to the technique of organization and methods. Subjects will include 'What O. and M. work demands of those who do it', and 'How to organize an O. and M. service', by Mr O. W. Standingford, F.I.O.M., F.B.I.M.; 'Form design', by Mr W. A. Green, M.I.O.M., and 'Machines and devices', by Mr H. P. Cemach, F.C.A., F.I.L., M.I.O.M., M.INST.W.S.

Further details, together with application forms are obtainable from the Course Secretary, The Institute of Office Management, 56 Victoria Street, London SW1.

Dinner at House of Commons

A members' dinner will take place at the House of Commons on October 3rd, at 7.30 p.m. for 8 p.m., through the good offices of Mr Geoffrey Johnson Smith, M.P.

This will be the third such occasion to be held and arrangements have again been made for guests to be conducted in parties through the House of Lords and the House of Commons prior to the dinner.

ANNOTATED TAX CASES

Part 3 of Volume XL of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is published today and contains reports with notes on the judgments of the following cases: *Crabb v. Blue Star Line Ltd* (Ch.D.); *Dunn v. Commissioners of Inland Revenue* (Ch.D.); *Abdul Gaffoor Trustees v. Ceylon Commissioner of Income Tax* (P.C.); *Ellwood v. Cenlon Finance Co Ltd*, *Williams v. Tableau Holdings Ltd* (C.A.); *Johnson v. Jewitt* (Ch.D.); *Crossland v. Hawkins* (C.A.).

The annual subscription to the *Annotated Tax Cases* is 50s post free; the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 4TH, 1886

A Weekly Note

A case recently heard at the Mansion House, in which the manager of a large City Restaurant appeared in answer to a charge of falsification of accounts, may be taken advantage of to draw attention to the loose system of book-keeping, and the imperfect checks on servants, which are to be found in many of our large hotels and restaurants. In the case referred to, it appeared that the employer of the person charged had his suspicions aroused as to the accounts, and particularly examined the petty cash book, which rather singularly, seems to have contained the payments made to tradesmen in account current. The tradesmen having been communicated with, a warrant was applied for. . . . As already observed however, and without reference to the case just referred to, it is the fact that except where a limited company carries on the business, hotel accounts are, generally speaking, very badly kept, and it is not less the fact in few businesses can accounts be made so practical, or of such great service. The cause probably of the indifference, to, or fear of, introducing a full and perfect set of accounts, arises from the misapprehension entertained by many hotel proprietors that their business is of such a detailed kind, and involves so many small items both of payment and receipt, as to render impossible the keeping of accounts in anything like a serviceable way. A rough statement of assets and drawings less liabilities, made up yearly or half-yearly, is perforce taken as the best that can be done, and comparing the balance so arrived at with the balance similarly shown at the preceding date, is taken in lieu of a proper profit and loss account. These statements, besides being wholly dangerous, either as regards the real position of the trader, or the course of his business, are of course utterly inadequate and silent as to many things which he ought to know. . . . The initial cost of drafting a proper and complete set of books, giving where necessary statistical as well as financial information ordinarily so-called, of course frightens many traders other than hotel proprietors, but no expenditure pays such splendid interest.

B.I.M. NATIONAL CONFERENCE

A critical European view of British marketing methods, a frank appraisal of modern industrial relations, the successes and failures of a small firm, management training and Government policies and industry will be among the subjects to be discussed at the sixteenth national conference of the British Institute of Management to be held at Torquay from October 24th-26th. The opening address at the conference will be given by Mr S. P. Chambers, C.B., C.I.E., chairman, Imperial Chemical Industries Ltd.

A wide variety of sectional meetings include addresses on 'Management and technical change', by

Sir Leonard Owen, C.B.E., member for production and engineering, United Kingdom Atomic Energy Authority; 'The essentials of overseas trading today', by Mr E. P. Godden, managing director, Beecham Overseas Ltd; 'Management succession', by Mr L. S. Newton, group education officer, Pilkington Bros Ltd; 'Presenting information to employees', by Mr R. L. Wessel, chairman, N. Corah (St Margaret) Ltd; 'Government policies and industry', by Mr Hugh Weeks, C.M.G., director, Industrial & Commercial Finance Corporation; 'Personal initiative in the smaller firm', by Mr J. H. Kean, director, Joseph

Newsome & Sons Ltd; and 'A European look at British marketing methods', by Mr E. Tersling, chairman, British Import Union, Copenhagen.

There will be informal discussion groups early each evening, in which the delegates will be able to examine, in more detail, subjects discussed during the day. The closing address will be given by Mr Dennis Vosper, T.D., M.P., Secretary, Department of Technical Co-operation.

Further details regarding the conference are obtainable from the Conference Secretary, British Institute of Management, 80 Fetter Lane, London EC4.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Results of Examinations held in June 1961

FINAL EXAMINATION

SECTION I

(in order of merit)

First Place and Prize: Miles, D. I., Maldon.

Second Place: Barwick, G. A., London.

Third Place: Petty, Major R. E., Taunton.

(in alphabetical order)

Adams, R. A., Stanmore.
Adebayo, J. A. A., Leicester.
Adegbulugbe, F. A., London.
Adesanmi, W. A., Leeds.
Alli, M. A., Cardiff.
Allin, D., Huntingdon.
Annan, D. T., London.
Ashton, J., Oldham.
Atkinson, K., Stafford.

Baldree, Capt. E. J., B.A.O.R., B.F.P.O. 40.
Barttram, F. R., Leigh-on-Sea.
Bingham, J. R., Sheffield.
Blanchon, T., Doncaster.
Brocklesby, T. R., London.
Buhagiar, F. X., Slierna.
Burford, P. R., Ilford.
Burgess, C. R., Slough.

Carter, E. J., Maidenhead.
Casey, F. M., Renvyle.
Clemons, H. I. (Mrs), London.
Congram, J. R., Sanderstead.
Cozens, E. A., Brighton.

Davies, B. P. R., Pontyclun.

Edey, D. J., Wembley.
Embleton, D. M., London.
Epps, R. G., Edinburgh.

Fisher, F. W. V., London.
Floodgate, C. A., Hayes End.

Gabbidon, N. R. R., London.
Gaywood, R. G., New Malden.
Gould, W. F., Chelmsford.
Griffin, S. A., Wirral.
Grinstead, E. P. L., Chertsey.
Gutman, T. A., Harrow.

Hanlon, M. D. (Mrs), London.
Hannon, M. J., Bray.
Hart, A., Coventry.
Harwood, P. J., London.
Hatcliffe, D., York.
Haywood, H. R., Cannock.

Iden, E. K., London.

Kahan, M., Salford.
Keys, T. P., Limerick.
Khalifa, S. M., London.

Lawrence, J. E., Morden.

McNamara, A., Gravesend.
MacArtain, M. S., Dundalk.
Macdonald, M. S., Wigan.
Marsh, E. T., St Paul's Cray.
Miles, T. J., Evesham.
Muir, A. J., Beith.
Muir, G. A., London.

Nelson, W. K., London.

O'Baka-Torto, E. T., London.
Omo-Ikerodah, A. A., Leeds.

Osborne, D. J., Richmond.

Page, N. J., Bushey.
Pasmore, P. J., London.
Piper, J. L., Birmingham.
Pring, B. A., Bishop's Stortford.

Richardson, D. M. (Miss), Banstead.
Riches, J. W. T., Tilbury.
Roberts, T. C., Maidenhead.
Robertson, I. M., Irvine.
Robinson, E. E., Rotherham.
Rowntree, D., Bishop Auckland.

Simms, J. R., Wolverhampton.
Stoller, B., London.
Stride, E. C., Weymouth.
Stringfellow, D., Middleton.

Ventour, L. L., London.

Ward, H. S., London.
Webb, A. H., London.
Weller, D. J., Hornchurch.
Whittaker, B. D., Shepperton.
Wilce, W. H. D., Plymouth.
Williams, D., Leeds.
Wilton, P., Newcastle.
Wright, R., Liverpool.

Young, W., Ferryhill.
Yhap, C. L. A., Manchester.

Zayyad, H. R., London.

(240 Candidates failed)

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FINAL EXAMINATION

SECTION II

(in order of merit)

First Place and Prize: Thomas T. J., Swansea.

Second Place: Mistry, C. M., London.

Third Place: Vickers, I., Bishop Auckland.

(in alphabetical order)

Adegboye, T. O., Bristol.
Archer, B. K., Old Hill.

Bacon, N. P. R., Guisborough.
Ball, K., Doncaster.
Barnes, R. J., Chelmsford.
Bellinger, R. V., Earley.
Bentil, M. B. K., London.
Brisby, R. H., Haxby.
Brown, I. C., Chessington.
Burke, J. B., London.
Burns, R. G., Hillingdon.

Cherryman, D. A., Worcester Park.
Chubb, J. D. F., Brookmans Park.
Clarke, R. C. H., London.
Clayden, J. D., Ingatestone.
Cook, D. J., Reading.
Cooke, A. L., Brighton.
Cooper, T. W., Rochester.
Copland, P. J., Currie.
Court, J., Ashford.

Davies, A. S., Liverpool.
Dial, B., London.
Dixon, T. R., Sunderland.
Dosani, A. H. M., London.

Esenwa, F. N., Leeds.
Everett, D., Horndean.

Farren, L. A., London.
Flude, G. J., New Malden.
Forster, R. N., Carlton.
Frost, J. G. (Miss), Cardiff.

Grylls, J. I., Didcot.

Hall, A. F., Preston.
Harrison, C., Barnsley.
Hill, R. F., Walsall.
Holmes, G. W., London.
Horne, D., London.
Hundley, C. W., Stourbridge.

Jackman, A., Arnold.
Jary, K., Harrow.

Kearney, E. A., Scawsby.
Kelly, M. P., Blackrock.

Lawson, G. E., Sheffield.
Lee, D. F., Newcastle.
Lilley, N. R., Wolverhampton.
Livingstone, A. M., Middlesbrough.

McKenna, P. J., Dun Laoghaire.
MacSherry, L. J., Ballsbridge.
Maddison, F., Carlton.
Maher, T. A., Manchester.
Marshall, E. O., London.
Middleton, R. P., London.
Miller, J. A., Hitchin.
Moppel, H., Rainham.
Morrell, K. T., Reading.
Morris, L. R., Cardiff.

Newsome, M., Harrogate.
Noble, R. M., Smallfield.
Nokes, J. H., London.

O'Connor, R., Belfast.
O'Driscoll, D. L., Cork.
Oguntimehin, S. O., Headington.
O'Reilly, S. M., Raheny.
O'Riordan, C. L., Darlington.

Parsons, E. A. W., Aylesbury.
Parodine Baker, D. J., Shaftesbury.
Parrott, J. F., New Malden.
Patch, G. F., Bristol.
Pearce, B. J., London.
Phillips, A., Glasgow.
Pizzey, A. V., London.
Prater, L. M., Woodley.
Proctor, B. F. J., London.
Pyne, D. W. M., London.

Raynaud, S. L., London.
Russell, D. F., Liverpool.

Sambrook, R., Cowley.
Samuel, E. K., Llanelli.
Scofield, G. H. T., London.
Shaw, P. J., Orpington.
Smith, D. L., Shrewsbury.
Soloman, C., Dagenham.
Spencer, J. B., Gillingham.
Spencer, R. A., Gerrards Cross.
Stenhouse, A. C., Glasgow.
Straker, M. A., Reading.

Taylor, J. A., Ilkeston.
Terry, L. M., Edgware.
Townsend, J. R., London.
Toy, J. E., Birmingham.
Tregoning, W. R., Falmouth.
Tucker, J. S., Kingston upon Thames.

Walsh, T., Cork.
Welton, L. P., London.
West, K. V., London.
White, W. A., Hollybush.
Wilkie, H., East Kilbride.
Williams, J. R., Enfield.
Winter, T. J., Criccieth.

(241 Candidates failed)

Summary of Results

Candidates	Preliminary	Intermediate			Final		Total
		Old Syllabus	Section I	Section II	Section I	Section II	
		(New Syllabus)					
Passed with Honours..		4	4	3	3	3	17
Passed	35	153	419	104	82	98	891
Failed	74	454	435	178	240	241	1,622
Total sat	109	611	858	285	325	342	2,530

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The Little Budget and After

NOW that taxation has ceased to be merely a means of raising money to meet Government expenditure and has become an instrument of economic planning, the flexibility which indirect taxation offers in comparison with direct taxation is perhaps more marked than ever. When THE CHANCELLOR OF THE EXCHEQUER announced reductions in surtax and increases in profits tax last April, he stressed that the changes would not have any practical effect for a long time. The rather savage increase in profits tax, applying as it does to building societies and co-operative societies, as well as industrial companies, will produce about £140 million in a full year. However, although it applies to all profits arising after last March, the inevitable wait for the production of accounts and the agreement of computations will see to it that very little of this money reaches the Government before next year. On the other hand, the 10 per cent increase in indirect taxation which was imposed in July produced results the very next day and will continue to produce them at a rate of over £200 million a year.

At the same time that he increased indirect taxation, MR LLOYD called, somewhat ineffectively, for a pause in the increases in wage rates. This single aspect of his 'little Budget' was perhaps the one that received the most criticism and the least support - at least from those whom it was intended to affect. The CHANCELLOR'S appeal on the wages question was accompanied by a remark that profit margins were too high. He proceeded from this remark to the following observation:

'With regard to dividends, although it is true that gross they represent only 7 per cent of the figure for wages and salaries and net of tax even less, they have increased substantially. In present circumstances I do not consider that a further general increase in them in the coming year is justified.'

This observation has so far remained in the field of exhortation. There has been no threat to reintroduce the two-tier system of profits tax, under which distributed profit would pay tax at a much higher rate. At the same time there has been no assurance that companies which have vastly increased profits and yet, in deference to the CHANCELLOR, peg their dividends, will be immune from surtax direction. It is to be hoped that we are not to re-enter that Alice in Wonderland world where the profits tax legislation, in effect, said it was wrong to pay dividends while the surtax legislation said it was wrong not to. In particular, taxpayers do not want to have to rely on a so-called 'Chancellor's umbrella' which the Inland Revenue were in the habit of furling whenever a com-

pany did something which was considered to be an extraction of profit in the guise of dividend. This is perilously near to taxation by whim.

The observation itself is vague enough. It refers to 'present circumstances' but to the 'coming year'. Dividends decided on next year cannot be made 'in present circumstances'. Some isolated examples have already occurred of public companies refraining from increased dividends which were otherwise justified, but, of course, these are immune from surtax direction. What is the director of a flourishing private company to do? And how is he to know precisely what are the circumstances in which an increased dividend will be justified in the CHANCELLOR's eyes?

The CHANCELLOR was a little more specific about the question of taxing capital gains. He said he had already voiced his objection to what he called a conventional capital gains tax. However, certain 'profits' at present tax free ought to be brought within the existing system. He had made sufficient progress since April to say definitely that in next year's Budget he would be bringing forward measures designed to impose a clear liability to tax over a wider field than at present. The activities he wished to see taxed were of two main kinds. The first kind were activities of those seeking short-term profits – more in the nature of speculation than investment, for instance, short-term transactions in shares. The second kind were, in effect, trading activities (often in real estate) but cloaked in such form as to escape liability under the present law.

THE FINANCIAL SECRETARY TO THE TREASURY filled out these observations when he spoke to the Press on the same day, and when he addressed the House of Commons two days later. He categorically rejected the suggestion that any new measures to tax capital gains would be retrospective. Apart from the general objection to retrospection, it was particularly difficult to justify when the legislation could only be described in general terms. As regards share transactions, the measures would cover any transaction which could popularly be described as 'staggering' a new issue; and also any transaction in which shares were bought and sold within a short period. Bearing in mind the flood of loss claims which would follow a general acceptance of the principle that an individual who speculates in shares is trading in them, the

Government may well adopt an avoidance device of its own. They could provide that losses on share speculation were not available for relief at all, or, more probably, that such losses could be set off only against profits from the same activity. There is a precedent for the latter alternative in the legislation aimed against 'clean boot farmers'.

Speaking about the CHANCELLOR's reference to transactions in real property, SIR EDWARD BOYLE told the House of Commons that the sort of case in mind was that of an operator who was in substance dealing in property, but who formed a chain of companies, with suitably framed articles of association, through each of which the operator put one transaction only. In referring to articles of association SIR EDWARD perhaps meant the memorandum of association, in which the company's objects are set out. Clearly, if the company had only investment objects and did not have more than one transaction it would be difficult to satisfy the Appeal Commissioners that the single transaction amounted to a trade. If, however, the scope of Schedule D assessments on the profits of dealing in shares were extended as is threatened, this by itself may be enough to catch the operator of single transaction companies. However, it was made clear that the examples given above were purely illustrative; the legislation may be much more far reaching.

MR HAROLD WILSON, for the Opposition, said that such legislation would have a very easy passage and asked why the Government should wait until next year before introducing it. The FINANCIAL SECRETARY said that the CHANCELLOR authorized him to say that he would bear this suggestion in mind. The PRIME MINISTER said later in the debate that the CHANCELLOR would deal with profits from speculation in land and shares 'not later than next year's Budget'.

There are enough signs and portents here to satisfy the most pessimistic of taxpayers, and the promise to avoid retrospection is a direct invitation to them to complete such deals as they have in prospect. One of the most potent causes of delay is the uncertainty introduced by the complicated and as yet undigested legislation of 1960 which leaves so much to the discretion of the Inland Revenue. That department's obvious reluctance to grant clearances in all but the clearest cases adds to the delay and uncertainty.

Dissension in the Boardroom

IT has long been established that a director of a company not only has the duty to attend board meetings, he also has the right to do so, a right which can be enforced by the Court. Thus in *Pulbrook v. Richmond Consolidated Mining Co Ltd* ((1878) 9 Ch.D. 610) the Court granted an injunction restraining the directors of a company from excluding one of their number from their meetings. Since in a general way the validity of what the directors do depends on its being done at properly convened board meetings, this means that a dissenting minority can at least put their own point of view and be informed of what is going on, even though they are outvoted. Under most articles of association a decision to remove a director depends on the decision of the members in general meeting, not on his colleagues. Where a majority of directors wish to act as far as possible independently of one or more of their number, the question must often arise in practice just how far they can go.

This question has recently been touched on in *Harper v. Rawson and Others*, a case which is still *sub judice*. MR CYRIL EDWARD HARPER, a director of Harper Engineering and Electronics Ltd, moved the Court to commit to prison five of his co-directors for alleged breach of an undertaking which they gave to the Court on July 14th and 21st not to do anything by which they purported to act as an executive committee empowered to act as the company's board of directors, nor to interfere in any manner whatsoever with the plaintiff acting or attending to his duties as a director of the company. MR JUSTICE WIDGERY dismissed the motion, with costs against MR HARPER.

His lordship said it was common ground that MR HARPER was a man of ability who in six years as managing director had built up the company from comparatively small beginnings to a very large organization. MR HARPER had thought it right that the board should be strengthened and as a result SIR STANLEY RAWSON, SIR PATRICK HAMILTON, and MR ALFRED NEATE were appointed directors. Soon afterwards, in March 1961, MR HARPER was removed from his post as managing director and thus became an ordinary

non-executive director. His lordship was in no doubt that the purpose of the defendants to the motion (the three gentlemen mentioned above together with MR JOHN GRAHAM HASSELL MEDLEY and MR EDWIN MASTERMAN MORRIS), for good reason or bad, was to put themselves in the position in which they could carry on the affairs of the company without reference to the plaintiff. The plaintiff's counsel, when opening the motion, alleged that at a board meeting on June 22nd, with SIR STANLEY RAWSON in the chair, the chairman had said that certain financial matters had to be discussed but would not be mentioned in front of MR HARPER. A sub-committee consisting of SIR STANLEY, MR NEATE and SIR PATRICK was appointed. On June 26th, the defendants produced a document purporting to set up the executive committee. As a result of proceedings brought by plaintiff, the defendants gave the undertakings mentioned above.

SIR STANLEY said in evidence that the purpose of the proposed executive committee was to exclude MR HARPER and another director from deliberations on matters mainly of finance. He denied that the sub-committee of three was also designed to exclude MR HARPER. This committee, he said, had the specific task of negotiating with the company's main bankers with a view to obtaining further finance.

Returning to the judgment: MR JUSTICE WIDGERY said that allegations by MR HARPER that the defendants had held a secret meeting prior to a board meeting of July 28th were not made out. A printed circular to shareholders and the stock exchange was produced at that meeting for approval and was approved but it was not proved that the other directors had seen it. SIR STANLEY'S failure to show the draft to MR HARPER two days before the meeting was not an interference with MR HARPER in the performance of his duties, although his lordship questioned SIR STANLEY'S wisdom in deciding not to show the draft to MR HARPER. He was satisfied that there had been no kind of campaign or conspiracy to pay lip-service to the undertakings while in effect depriving MR HARPER of the benefit of them.

A Hundred Years of Thrift

POST OFFICE SAVINGS BANK CENTENARY

by R. ROBERT, A.C.I.S.

THERE had been at least one proposal for a Post Office Savings Bank prior to 1861, the year in which it was actually founded. Samuel Whitbread, as far back as 1807, had outlined a scheme under which the more deserving and thrifty of the working people were to be invited to deposit sums not exceeding £20 a year or £200 in all. The money so received was to be remitted to a 'Poor's Fund' and invested in Government stock. Depositors – credited with stock in proportion to their deposits – would receive back, on withdrawal, the value of the stock at the time of sale, together with accumulated dividends.

Whitbread's suggestion, however, made little headway, and it was not until half a century later that the plan for a Post Office Savings Bank had any genuine prospect of success. By that time the trustee savings banks had proved themselves, and reformers could draw upon the wealth of practical experience they had gained. The Post Office, too, had developed, and was in a much better position to handle savings business than it had been in Whitbread's day. In 1858, a Mr Charles William Sikes, of Huddersfield, advanced a new idea which a select committee in due course considered.

An employee of the Huddersfield Banking Company, Sikes had interested himself in working-class conditions in Yorkshire, and, in particular, had studied the savings facilities, altogether inadequate, open to ordinary wage earners. His first idea was for a penny bank, organized through the mechanics' institutes, then very strong in the north. Each institute, he proposed, should set up a savings bank committee to encourage the accumulation of small sums, which could later be deposited with one of the trustee savings banks operating in many of the main centres. The number of the banks, however, was insufficient, and they did not at that time offer the complete security required by a scheme which was to embrace thousands of working-class people.

The Yorkshire Union of Mechanics' Institutes was among the first to welcome Sikes's idea, which was sound both in principle and (because he had devised an efficient book-keeping system) in practice. He saw, however, the necessity of State backing and a State guarantee for deposits; and

it was this which led him, in 1858, to write to the Chancellor of the Exchequer outlining his ideas. As yet he was hoping for no more than a rebirth of the old savings banks run by private enterprise. His suggestion for a Post Office Savings Bank did not come until eighteen months later.

Interest at 2½ per cent

It was in June 1859 that Sikes's new, revolutionary scheme was first published. Sums of £1 and over were to be remitted from Post Offices all over the country to a chief savings bank in London – by means of money orders. The depositors would receive 2½ per cent interest.

After some modifications had been made, the scheme was passed on to Mr Rowland Hill, secretary of the Post Office, for his consideration. Though he gave the scheme a good reception, he was unable to recommend it to the Postmaster-General immediately and Sikes, becoming impatient, wrote to Mr Gladstone urging adoption of his plan and illustrating how it would operate.

Gladstone, genuinely impressed, discussed the letter with Sir Alexander Spearman and other senior Post Office officials. Several of them were deputed to examine Sikes's proposals and one,

Commemorative Stamp



One of the three stamps issued by the Post Office to commemorate the centenary of the Post Office Savings Bank. Printed in purple with red/brown and white the design shows, besides the Queen's portrait, a nut tree representing the growth and branching out of the savings movement, and a bird with its nest-egg of savings; a squirrel gathering nuts from the tree to place on the pile below depicts prudent concern for the future and the wise old owl in the corner illustrates familiar aspects of saving.

The other stamps in the series are for the values of 2½d and 1s 6d.

George Chetwynd, book-keeper at the Money Order Office (he later became controller of the new venture), improved on them in several details. He advised, for example, against the barring of deposits of less than £1 – a rule which would discourage the saving of pence and shillings which were the necessary preliminary to the saving of pounds. Chetwynd also realized that remittance by money order was likely to prove cumbersome, and would have to be replaced by machinery of a simpler kind. Helped by F. I. Scudamore, Receiver and Accountant-General of the Post Office, he devised the plan – familiar to us all – based on the deposit book.

Gladstone's Resolution

On February 8th, 1861, Mr Gladstone, with a workable Post Office Savings Bank scheme before him, moved a Parliamentary resolution calling for the provision of additional facilities for the deposit of small savings. The plan, he claimed, whilst avoiding competition with the trustee savings banks, would bring in a large volume of new savings. Parliament seems to have been a little overwhelmed, for there were none of the full-bodied criticisms which might have been expected.

The debate on the second reading of the Bill, which took place on March 18th, 1861, was a more vigorous affair. All the Parliamentary champions of the old savings banks went into action. Charges of 'State socialism' were raised to discredit the new scheme, and Gladstone was persuaded to make a few minor concessions – notably that Post Office facilities would be given, in the first instance, only to places which had no savings banks. Yet he took care to point out that 'if the old suffered from the new it could only be because the new was better'. The second reading passed without a division.

Later, when the opposition had fully marshalled its facts, there was criticism of a more detailed nature. The new bank, it was objected, would, by handling thousands of small deposits, involve the Government in serious loss. It would discourage working men's benefit societies, and inevitably do harm to the existing savings banks run by private enterprise. Mr Gladstone, however, gradually converted the House, and won authority to give the great experiment a trial.

The Post Office Savings Bank Act was read a third time and on May 17th, 1861, received the Royal Assent. A large section of the Press, including *The Times*, applauded what Parliament had done. Social reformers were enthusiastic, and Gladstone himself regarded the achievement as one of the greatest of his career.

The First Forty Years

Business began on September 16th, 1861, through the agency of 301 Post Offices, and 435 deposits amounting to £911 were received on that day. The savings, limited to £30 annually and a total of £150, were State guaranteed. Interest was payable at £2 10s per annum – the rate still in force today.

At the end of December 1862, after little more than a year's working, savings bank business was being transacted at some 2,500 Post Offices. By 1870 the number of deposits had grown to 1,183,000; the balance on the books stood at £15 million – and during the remainder of the nineteenth century was approximately doubled every ten years. In December 1900, the liability to 8,440,000 depositors was £135½ million, and savings bank business could be transacted at over 13,000 Post Offices.

The public was able, by 1880, to invest in Government Stock through a Post Office Savings Bank account, and a few years later Government annuity and insurance business was transferred to the bank's care. Before the turn of the century it was possible to deposit money orders, crossed postal orders and cheques – and to withdraw up to £10 by telegraph. The annual and total limits were raised to £50 and £200 respectively.

Altogether, Mr Sikes's and Mr Gladstone's venture had turned out to be a great success.

The P.O.S.B. Today

The business of the bank continued to expand early in the present century, and was stimulated during the First World War, when limits on deposits were suspended. At the end of 1918 the balance due to depositors stood at £234,600,000, and from then until 1939 there was an almost continuous increase. Many changes and improvements were introduced, including withdrawal of the limit on nominations (a method of making regular periodic payments), the sale of National Savings stamps for subsequent reinvestment, and the payment of telephone accounts through a Post Office Savings Bank account. At the close of 1939 the balance was £551 million in 11,600,000 accounts. The period of the Second World War saw a still further increase in the volume of transactions until by the end of 1945 the balance stood at £1,754 million in 20,176,800 accounts.

At this time the Post Office Savings Bank was also made responsible for the issue of war gratuities and post-war credits to personnel of the fighting and civil defence services. More than 6,600,000 savings bank accounts were opened for this purpose. This was a large-scale operation

which had to be undertaken in addition to the bank's ordinary business. Most of the accounts proved to be very active and short-lived.

In this, its centenary year, the Post Office Savings Bank claims to be the largest organization of its kind in the world. Savings bank business can now be transacted at some 20,440 Post Offices and, on December 31st, 1960, a balance of more than £1,709 million was held in 21,514,000

accounts. Deposits of up to a total of £5,000 may be made, and the first £15 of annual interest earned is tax free.

Depositors of the Post Office Savings Bank at the present moment include members of the Royal Family and people eminent in public life. However, it is still true to say that the small savers, with an average balance of about £77, make up the majority of those holding accounts.

Preference Shareholders' Right to Surplus Assets

by SPENCER G. MAURICE

Primarily a Matter of Construction

WHETHER the holders of preference shares or stock in a company are entitled, in the winding-up of the company, to participate in the surplus assets, that is to say, those assets which remain for distribution among the members after the company's liabilities have been met, is a question of construction of the articles of the company and the terms of issue of the shares. This rule is to be found in *Scottish Insurance Corporation Ltd v. Wilsons & Clyde Coal Co Ltd* ([1949], 1 All E.R. 1068), a decision of the House of Lords on appeal from the Court of Session. In a later case in the Court of Appeal, *Re Isle of Thanet Electricity Supply Co Ltd* ([1949], 2 All E.R. 1060), Wynn-Parry, J., delivering the leading judgment, expressed the view (at pages 1064, 1065) that the authorities established two principles:

'... first, that in construing an article which deals with rights to share in profits, that is, dividend rights and rights to share in the company's property in a liquidation, the same principle is applicable; and, secondly, that that principle is that, where the article sets out the rights attached to a class of shares to participate in profits while the company is a going concern, or to share in the property of the company in liquidation, *prima facie* the rights so set out are in each case exhaustive'.

These principles in their reference to rights in a winding-up are, of course, material while the company is still a going concern, for the company may wish at any time to dispose of part of its capital by returning it to shareholders and the question then arises whether the rights of preference holders are infringed. *Scottish Insurance Corporation Ltd v. Wilsons & Clyde Coal Co Ltd*,

was itself such a case; so was the recent case of *Dimbula Valley (Ceylon) Tea Co Ltd v. Laurie* ([1961], 1 All E.R. 769).

Right to Participate Given by Memorandum

This was an application by a company incorporated in 1896 with a capital of £200,000 divided into 10,000 preference, 20,000 ordinary and 10,000 unclassified shares, all of £5 each. The memorandum of association provided that the preference shares should carry such rights as were defined 'in the articles of association registered herewith', and Article 5 of the original articles gave the holders of such shares

'(a) The right to receive out of the profits of the company a cumulative preferential dividend at the rate of 6 per cent per annum on the amount for the time being paid up thereon. . . (b) The right in the event of the company being wound up to be paid out of the surplus assets of the company, the amount paid up in respect of such preference shares and all arrears (if any) of dividend thereon up to the date of the commencement of the winding-up in priority to the other shareholders, and to participate in any further surplus assets of the company after payment of the amount paid up in respect of the other shares rateably with the other shareholders in proportion to the amount paid up on the said preference shares and the other shares respectively.'

Article 85 of the original articles provided:

'Subject to the rights of members entitled to shares issued upon special conditions, the profits of the company, after setting aside such sum to a reserve as the directors may decide, shall be divisible among the members in proportion to the amount paid up on the shares held by them respectively. . .'

and Article 90 gave the directors power to place profits to reserves. There was no capitalization provision in the original articles, and no article in terms authorized the declaration of dividends, but the declaration of dividends was included among the business to be transacted at ordinary general meetings of the company.

Provision for Capitalization

In 1946 new articles were adopted of which Article 140 provided:

'The company in general meeting may at any time and from time to time on the recommendation of the board pass a resolution that any sum not required for the payment or provision of any fixed preferential dividend and (A) for the time being standing to the credit of any reserve fund or reserve account of the company, including premiums received on the issue of any shares or debentures of the company, or any sum arising from any operation creating an excess of assets on capital account, or (B) being undivided net profits in the hands of the company, be capitalized, and that such sum be appropriated as capital to and amongst the shareholders who would have been entitled thereto if the same had been distributed by way of dividend in the shares and proportions in which they would have been so entitled, and in such manner as the resolution may direct.'

The article went on to provide for the sum so appropriated being applied in paying up shares or debentures to be issued to the shareholders in accordance with their rights.

The company's application asked for the determination of various questions, only two of which need be considered here. One was whether the further surplus assets of the company in which the preference shareholders would participate in a winding-up rateably with the other shareholders meant (a) the assets available after the payment of the company's debts and liabilities and the return to the members of the amounts paid up on all shares in the company and the payment to the preference shareholders of any arrears of their dividend up to the date of the commencement of the winding-up; or (b) some other and, if so, what assets. The other was whether the company had power pursuant to Article 140 of its new articles or otherwise to allot to the ordinary shareholders credited as fully paid up shares or securities by way of capitalization of (i) credit balance on profit and loss account and other revenue reserves; (ii) reserves resulting from the realization of capital profits; (iii) reserves resulting from the revaluation of capital assets; or (iv) share premium account.

Ordinary Shareholders' Case

For the ordinary shareholders it was contended that the surplus assets in which the preference shareholders might participate after creditors, costs and arrears of preference dividend had been paid and paid-up capital had been repaid would not include undistributed profits, and that the reference in paragraph (b) of Article 5 to 'further surplus assets' related to such matters as appreciation of capital assets realized in the winding-up or profits obtained by the liquidator carrying on the company's business for the purposes of the winding-up. This contention was based on *Re Bridgewater Navigation Co.* ([1891], 1 Ch. 155; [1891], 2 Ch. 317 (C.A.)), where it was held that the undistributed profits of the company not required for payment of the preference dividend belonged to the ordinary shareholders.

Buckley, J., in the *Dimbula Valley* case pointed out that in *Re Bridgewater Navigation Co* the relevant article provided that the net profits of each year remaining after payment of the preference dividend should 'belong to . . . and be divided' among the ordinary shareholders. The right of the preference shareholders to participate in the assets in a winding-up necessarily took effect subject to this right of the ordinary shareholders. Turning to the *Scottish Insurance Corporation* case, his lordship pointed out that there the right of the preference shareholders to participate in profits while the company was a going concern was limited to a cumulative preferential dividend at a stated rate, subject to which the residue of the profits was declared to be 'divisible' amongst the ordinary shareholders; and that in a winding-up the preferential shareholders were given a preferential right to repayment of capital paid up on their shares, but the articles were silent about what should happen to any assets remaining after that preferential right was satisfied.

Authorities Compared

Buckley, J., summarized *Scottish Insurance Corporation Ltd v. Wilsons & Clyde Coal Co Ltd*, as follows ([1961], 1 All E.R. 777):

'(i) The article regulating the distribution of profits did not in terms state that profits remaining after paying the preference dividends should belong in any event to the ordinary shareholders; (ii) the article dealing with rights in a winding-up was silent about whether the preference shareholders should or should not participate in surplus assets available for distribution after repayment of all paid-up capital; (iii) it was clear that until liquidation began the ordinary shareholders could, by

means of dividends and capitalization, appropriate to themselves all the undistributed profits not required to pay preference dividends.'

He pointed out that the majority of the noble and learned lords who heard the appeal considered (iii) to afford the clue to the proper construction to be adopted as regards (i) and (ii).

His lordship went on to point out that as regards (i), the *Scottish Insurance Corporation* case differed from *Re Bridgewater Navigation Co*, but was similar to the case before him; that as regards (ii), *Re Bridgewater Navigation Co* was similar to *Scottish Insurance Corporation*, but the case before him differed from both those cases by reason of the terms of paragraph (b) of Article 5; and that as regards (iii), the present case resembled *Scottish Insurance Corporation*. The distinction between the present case and *Re Bridgewater Navigation Co* was, said the learned judge, that the original Article 85 in the present case said, not that the profits there referred to should 'belong' to the ordinary shareholders, but that they should be 'divisible' among (in effect) the ordinary shareholders. In *Scottish Insurance Corporation* 'divisible' had been construed as meaning 'that which is to be divided' (not 'that which is capable of being divided'); but whereas in that case the appropriation to the ordinary shareholders of profits not required to pay preference dividends and the exclusion of the preference shareholders from participation in any surplus assets were complementary provisions, in the *Dimbula Valley* case a parallel position did not exist because of the reference in paragraph (b) of Article 5 to participation by the preference shareholders in surplus assets. The circumstance that the ordinary shareholders had complete dominion over profits while the company was a going concern was not necessarily inconsistent with another class of shareholders having a right to participate in profits which the ordinary shareholders chose to leave undistributed until after the commencement of a winding-up.

Participation of Preference Shareholders

Buckley, J., accordingly held that in the case before him the preference shareholders would be entitled in a winding-up to participate rateably with the other shareholders in the assets available after payment of the company's debts and liabilities and the return to the members of the amounts paid up or credited as paid up on all shares in the company and the payment to the preference shareholders of any arrears of their dividend up

to the date of the commencement of the winding-up, and after providing for costs. The right of the ordinary shareholders to the exclusive enjoyment of accumulated profits which were not required to pay the preference dividend depended on appropriate resolutions being passed before liquidation began; in default of such resolutions such accumulated profits would form part of the fund of assets distributable under paragraph (b) of Article 5. His lordship thus distinguished both *Re Bridgewater Navigation Co* and the *Scottish Insurance Corporation* case.

Turning to the question of the power of the company to capitalize under the new Article 140, Buckley, J., rejected an argument on behalf of the preference shareholders that reserves resulting from the revaluation of capital assets could not be capitalized, and in so doing did not follow the *Scottish* case of *Westburn Sugar Refineries Ltd v. C.I.R.* (39 A.T.C. 128), where the Court of Session held that a reserve fund constituted as a result of a revaluation of unrealized fixed assets could not legally be distributed. His lordship pointed out that it had long been the generally accepted view of the law in England (though not established by judicial authority) that, if the surplus on capital account resulted from a valuation made in good faith by competent valuers and was not likely to be liable to short-term fluctuations, it might properly be capitalized. His lordship was also satisfied that such a surplus might properly be distributed by way of dividend in any case where the regulations of the company so permitted.

Buckley, J., accordingly concluded that the new Article 140 authorized the capitalization of a reserve resulting from the revaluation of capital assets, unless it conflicted with the rights of the preference shareholders; and as the company could legitimately distribute a capital surplus of this nature by way of dividend exclusively amongst the ordinary shareholders at any time when the preference dividend had been paid in full, a capitalization exclusively for the benefit of the ordinary shares in similar circumstances could not encroach on the rights of the preference shareholders.

It was conceded for the preference shareholders that Article 140 authorized capitalization under all the other heads mentioned in the question to which the answer of the Court was sought, and his lordship accordingly made a declaration that the company had power pursuant to Article 140 to capitalize under all the heads set out in that question.

Services to the Private Company and its Members – I

by A. B. SNOW, F.C.A.

Part I INTRODUCTION

FOR the purposes of this paper, 'private company' means a company which is a private company within the meaning of the Companies Act, the share capital of which is held by individuals (as distinct from being held by a holding company or its nominees), and which is engaged in trading with a view to profit.

2. Companies of this description probably constitute the larger part of the clientele of most accountancy practices, and it is against the background of his many services to this type of company, its directors and its members, that the practising accountant has acquired a relationship with his clients which is akin to that traditionally occupied by the family solicitor – that is to say, he is the trusted guide, philosopher, friend, and confidant to whom his clients turn both in prosperity and adversity, and whose opinion they seek on matters both business and personal, both financial and otherwise.

3. This paper sets out to examine the services which the practising accountant renders to the private company and its members, and to consider, in certain respects, how developments within the profession are resulting in those services becoming more and more extensive.

4. The primary service which the practising accountant renders to the private company is manifestly that of auditing (and most probably, preparing) its annual financial accounts. Having completed those accounts, he will attend upon the directors and either formally or informally, according to the nature of his relationship with them, he will tell them in detail of the results of their year's trading and give them an account of their financial position at the year-end.

5. In that connection, there can be few practitioners who have not had the experience, after having explained that the sales are 12.9 per cent up on last

year, that the profit on prime cost is 1.2 per cent up on last year, that the trading profit is 2.3 per cent down on last year, and that the bank overdraft is £5,000 up on last year, of having his clients turn upon him and say: 'If we've made as much money as you say we have, where is it?'



Mr A. B. Snow

6. That is a question which can take the accountant by surprise, but he must acknowledge that the answer to it is not immediately apparent from the accounts. He knows that the company has made a profit of £x, and he knows that it should therefore be somewhat near to £x better off than it was last year, but the directors only know that the company is hard up, that the bank manager is pressing for a reduction of the overdraft, that they are unable to draw their own salaries in full, and that they cannot raise the money to buy a certain item of capital equipment which they badly need – in short, they are quite unable to see that the year's profit has made any difference to them.

In those circumstances, 'Where is it?' is manifestly a very reasonable question, and I take it as my cue to refer to the first

of the additional services which the accountant can render to his private company clients – that of making the results of his work more intelligible to them – and thereby, more useful to them.

Specimen Accounts

7. As many of the points which I shall deal with can more easily be brought out by reference to a hypothetical case, I have drawn up a set of accounts of Oxcourse Manufacturing Co Ltd in the form of the Manufacturing Account, Trading Account, Profit and Loss Account, and Balance Sheet, which are reproduced at Appendix A.

These accounts are those of a small manufacturing company and their figures are representative of those of very many small private companies – showing increasing turnover, decreasing profitability, a bank overdraft hovering at or above its limit, and with the directors in the position of being unable to draw their salaries in full.

1960 £	WORK IN PROGRESS - MARCH 31ST, 1960 ..	£	£	1960 £	SALES Less Returns, discounts and allowances	£
8,706	MATERIALS	42,928	10,212	130,461		156,593
32,399	Materials bought	2,856		5,739		6,890
907	Less Increase in stock at March 31st, 1961			124,722		149,703
31,492	DIRECT WAGES		40,272			
47,011			56,176			
87,209	Less Work in progress - March 31st, 1961		106,660			
10,212	PRIME COST		12,322			
76,997	BALANCE - Profit on prime cost (37.0 per cent on sales) carried down		94,338			
47,725			55,365			
(38.3%)						
£124,722			£149,703	£124,722		£149,703
1,727	WORKS SALARIES	1,850		47,725	PROFIT ON PRIME COST	55,365
2,035	Works manager and assistant	2,470			Brought down	
3,762	Departmental managers		4,320			
1,323	MISCELLANEOUS LABOUR AND MATERIALS					
1,018	Labour	1,514				
2,341	Materials and consumables	1,179	2,693			
938	FACTORY					
5,261	Rates	754				
513	Fuel and power	5,732				
1,717	Cleaning	525				
8,429	Repairs	2,537	9,548			
1,891	PLANT					
736	Repairs to plant and machinery	2,123				
2,627	Replacement of loose tools	927	3,950			
1,633	LABOUR EMPLOYMENT EXPENSES					
1,752	National Insurance contributions	1,888				
77	Holiday pay	2,104				
3,462	Workmen's compensation insurance	93	4,085			
491	COLLECTION, PACKING AND DELIVERY					
763	Packages and packing	534				
1,218	Carriage and haulage	827				
2,472	Motor van expenses	1,271	2,632			
23,093	FACTORY EXPENSES		26,328			
24,632	BALANCE - Manufacturing profit (19.4 per cent on sales)		29,037			
(19.7%)			£55,365	£47,725		£55,365
£47,725						

OXCOURSE MANUFACTURING CO LTD
TRADING ACCOUNT FOR THE YEAR ENDED MARCH 31ST, 1961

Appendix A2

1960 £		£	£	1960 £		£
1,937	OFFICE EXPENSES			24,632	MANUFACTURING PROFIT	
283	Salaries	2,171			Brought down ..	29,037
101	Stationery	441				
325	Postages	114				
	Telephone	396				
2,646			3,122			
2,125	SELLING EXPENSES					
389	Agent's commission	2,421				
	Advertising	559				
677	Travelling and enter-	893				
841	taining	932				
	Motor-car expenses		4,805			
4,032						
318	GENERAL CHARGES					
71	Insurance	337				
503	Subscriptions	73				
	Incidentals	572				
892			982			
70	FINANCE					
84	Bank Charges	73				
400	Professional charges	140				
479	Accountancy charges	450				
	Bad debts	722				
1,033			2,385			
8,603	TOTAL EXPENSES ..		10,294			
16,029	BALANCE—Trading pro-		18,743			
(12.8%)	fit (12.5 per cent on					
	sales)					
£24,632			£29,037	£24,632		£29,073

Part II**INTERPRETATION AND COMMUNICATION**

8. One of the major truths which strikes the accountancy practitioner sooner or later in his career is that financial accounts in their conventional form are by no means the ideal instrument for the communication of information from one mind to another. Those accounts tell a story, but they do not necessarily tell the whole story – and sometimes the story which they do tell is in a language with which the client is not familiar, and with which, in fact, he has no very great desire to become familiar.

9. One of the services, therefore, which the accountant can most usefully render to his client, and to his private company client in particular, is to extract every particle of relevant and useful information from the accounts and to communicate it to his client in a form which is simple and, so far as possible, beyond any possibility of misunderstanding.

In the following paragraphs, I refer to the various ways in which this information can be prepared and presented.

Analysis of Trading Results

10. When the directors of Oxcourse Manufacturing Co Ltd are confronted with their Manufacturing and Trading Account for the year ended March 31st, 1961, they will see that their sales have increased from their 1959–60 figure of £124,722 to £149,703, that the profit on prime cost has increased by £7,640, but that its percentage on sales is down from 38.3 per cent to 37.0 per cent, that the manufacturing expenses have increased by £3,235, that the manufacturing profit is £4,405 more, but that its percentage on sales is down from 19.7 per cent to 19.4 per cent, that its trading overhead expenses have increased by £1,691, and that its trading profit is up by £2,714, but that its percentage on sales is down from 12.8 per cent to 12.5 per cent.

1960 £	INTEREST PAYABLE	£	1960 £	TRADING PROFIT	£
402	Bank interest	503	106,029	Brought forward	18,743
129	Hire-purchase interest	149			
500	Loan interest (gross)	500			
1,031					
	DIRECTORS' REMUNERATION				
2,500	Mr B. C. Oxcourse	2,500			
2,000	Mr A. D. Oxcourse	2,500			
1,000	Mr B. B. Camcourse	1,350			
5,500					
	PROVISION FOR DEPRECIATION				
200	Works premises	212			
1,209	Plant and machinery	1,324			
198	Fixtures and equipment	203			
834	Motor vehicles	1,124			
2,441		2,863			
25	Loss on sale of assets	397			
2,466					
	PROVISION FOR TAXATION ON THE PROFIT FOR THE YEAR				
87	Income tax: Schedule A (1960-61)	87			
2,600	Schedule D (1961-62)	2,900			
650	Profits tax	900			
3,337		3,887			
194	Less Income tax recouped on payment of loan interest	194			
3,143					
3,889	BALANCE - Net profit for the year carried down				
£16,029		£18,743	£16,029		£18,743

PROFIT AND LOSS APPROPRIATION ACCOUNT

£	PROPOSED DIVIDEND	£	£	£	£
613	Dividend of 10 per cent less income tax for the year ended March 31st, 1961 ..	613	7,606	BALANCE AT CREDIT - March 31st, 1960	£
10,882	BALANCE AT CREDIT - March 31st, 1961, carried to balance sheet	14,972	3,889	Brought forward from previous accounts	10,882
				NET PROFIT FOR THE YEAR	4,288
				Brought down	
				REFUND OF RATES OVERPAID	
				(Being a refund of rates paid in previous years on an assessment since reduced on appeal)	415
					£15,585
£11,495		£15,585	£11,495		£15,585

11. What they will not see is that the increased sales of £24,981 brought in an additional prime cost profit of £9,243, but that an overall drop of 1.3 per cent in prime cost profitability compared with the previous year cost £1,603 and reduced that additional profit to £7,640, and that increases of £3,235 in manufacturing expenses and £1,691 in trading overheads reduced the additional trading profit to £2,714.

12. Those figures are brought out by the Analysis of Trading Results reproduced at Appendix B, which deals not only with the successive stages up to the trading profit, but also with those up to the final figure of net profit after taxation.

This, on one sheet of paper, summarizes the trading results for the year, brings out the variances from the trading results of the previous year, and summarizes their effect.

This is an extremely useful analysis – but, in turn, it may not tell the whole story.

It may be that the directors knowingly executed their £24,981 additional sales at cut prices, and that their prime cost profitability rate of 38.3 per cent on the 1959–60 sales has in fact been maintained on the remainder of the year's sales.

In relation to the increases in expenses, the directors will know, or they will be able to assess, what proportion of those increased expenses were incurred by reason of the additional sales, and what proportion would have been incurred irrespective of any further sales.

13. However, the important thing is that the directors have before them an intelligible analysis of their accounts which provides them with a basis for an analytical review of the past year's activities – and from the signposts and the talking points it provides they will be able to form a considered judgment as to just how the profit came to be up or down on the previous year, or on their estimates for the year under review.

Summarized Balance Sheet

14. It is often a pleasant fiction among clients, and, let it be said, private company clients in particular, that they do not understand balance sheets. The accounting requirements of the Eighth Schedule to the Companies Act, 1948, have not made it any easier for them to forgo that fiction, and there is much to be said for presenting them with a summary of the balance sheet in a simplified and more intelligible form.

15. Thus, the directors of Oxcourse Manufacturing Co Ltd might be presented with the balance sheet and reconciliation of increase in net assets which is reproduced at Appendix C. This shows, in columnar form, the figures which appear in the 'statutory' balance sheets at March 31st, 1960, and March 31st, 1961, with a note of their respective increases or decreases for the year. The net effect of those variations (in this case, an increase in net assets during the year) is then reconciled with the amount of the net profit for the year, plus other increments, minus the dividend payable for the year.

16. Additionally, this form allows scope for explanatory annotation – and can thus bring out the total capital expenditure for the year, minus the net book value of fixed assets sold, the application of the depreciation provision, the movements on the taxation account, and the movements on the directors' undrawn salary accounts, etc.

17. This is a balance sheet in very readable form, and to the majority of clients it is much more easily understandable than the 'statutory' form. Probably the fact that the two sides no longer agree gives them a greater degree of confidence in it.

Application of Profit

18. In relation to the question I referred to in paragraph (5), we all know that it would be more realistic if the directors rephrased their question so that it read, not 'Where is it?', but 'What have we done with it?' In either event, as I have said, the answer is not immediately apparent from the balance sheet and accounts, but a redrafting of the figures will provide it.

The form of statement into which the figures can be redrafted for this purpose has acquired many names – employment of funds statement, movement of capital statement, statement of cash flow, etc., but I prefer to call it a statement of application of profit – and such a statement for the Oxcourse Manufacturing Co Ltd is reproduced at Appendix D.

19. This statement commences with a calculation of how much net cash has accrued to the company from the year's profit. The calculation starts with the net profit after taxation, to which is added the provision for depreciation (which is obviously not a cash outgoing but a transference of revenue against capital), and the provision for taxation (which is not payable until next year). The total of those items shows the total amount of money or money's worth which has resulted from the profit for the year. We know that it is subject to a charge for income tax and profits tax in due course, but the object of the exercise is to see what has been done with that particular amount of money in this particular year.

20. The statement then proceeds with a recital of how that money has been applied, viz.:

- (i) The figures of capital expenditure on the various classes of fixed assets are taken from the balance sheet, after deducting the net proceeds of sales.
- (ii) The taxation payments are the actual payments during the year, as shown by the taxation account, any variation in the opening and closing reserves (both current and future) being ignored.
- (iii) The dividend payment is that made during the year – in September 1960.
- (iv) With the exception of the rates refund (£415) which is taken from the appropriation account, the remainder of the figures represent the difference between the balance sheet figures at 1960 and those at 1961 – that is to say, in

the case of the increase in debtors (£4,247) it is assumed that the company received £4,247 cash from trading profit, and reinvested it into the form of debtors.

21. The completed statement answers the question 'Where is it?' and/or 'What have we done with it?', and the following information becomes apparent to the directors of Oxcourse Manufacturing Co Ltd.:

- (i) Their net capital expenditure was £4,960 – which can be said to have been met as to £2,863 out of the annual depreciation provision, £921 from increased hire-purchase liabilities, and £1,176 out of the year's profit.
- (ii) During the year they paid £420 in taxation (on the 1959 profit) which should in the normal course of events have been paid in the previous year – but they have not fully paid the profits tax liability on the 1960 profit, and will have to meet that next year. They are already aware that the actual profits tax

liability for 1960 has been agreed at £641, and that the balance of £91 was paid in April 1961.

- (iii) The stock has increased by £2,656. A calculation shows that the sales have increased by 20 per cent, and that a 20 per cent uplift on the stock figure at March 31st, 1960 (£5,745), would have represented £1,149. Prima facie, there has been an excess investment in stock of £1,507, and investigation and discussion will show whether or not it was necessary, and whether steps can now be taken to reduce the stockpile.
- (iv) The work in progress has increased by £2,110. A 20 per cent uplift on the 1960 valuation (£10,212) would be £2,042, and so prima facie there is nothing abnormal in this item.
- (v) The debtors have increased by £4,247. The 1960 debtors were £19,655, and a 20 per cent uplift would be £3,931. However, an examina-

OXCOURSE MANUFACTURING CO LTD

Appendix B

ANALYSIS OF TRADING RESULTS

Year ended March 31st, 1961

	Year to March 31st 1960	Per cent on Sales	Year to March 31st 1961	Per cent on Sales	Increase Decrease	Per cent on Sales
	£		£		£	
Sales	124,722	(100.0)	149,703	(100.0)	24,981	
Prime cost	76,997	(61.7)	94,338	(63.0)	17,341	
PROFIT ON PRIME COST	47,725	(38.3)	55,365	(37.0)	7,640	-1.3
Manufacturing expenses	23,093	(18.6)	26,328	(17.6)	3,235	
MANUFACTURING PROFIT	24,632	(19.7)	29,037	(19.4)	4,405	-0.3
Trading overheads	8,603	(6.9)	10,294	(6.9)	1,691	
TRADING PROFIT	16,029	(12.8)	18,743	(12.5)	2,714	-0.3
Interest payable	1,031		1,152		121	
Directors' remuneration	5,500		6,350		850	
Depreciation	2,466		3,260		794	
NET PROFIT BEFORE TAXATION	7,032		7,981		949	
Taxation	3,143		3,693		550	
NET PROFIT	£3,889		£4,288		£399	

RECONCILIATION OF INCREASE IN TRADING PROFIT

£

Increase in profit on prime cost

Loss of 1.3 per cent on equivalent of 1959-60 sales (£124,722)	1,621
Gain of 37.0 per cent on increased sales (£24,981)	9,243
	7,622
Difference on approximation of decimal points	18

As above 7,640

Increase in manufacturing expenses	3,235
--	-------

Increase in trading overheads	4,405
	1,691

Increase £2,714

OXCOURSE MANUFACTURING CO LTD

BALANCE SHEETS (AND RECONCILIATION OF INCREASE IN NET ASSETS)

Year ended March 31st, 1961

[illegible]

LIABILITIES

Hire-purchase liabilities	..	..	..	324	1,245	921
Unsecured loan	..	..	..	10,000	10,000	—
Bank overdraft	..	..	..	7,863	8,924	1,061
Creditors	..	..	..	11,331	13,264	1,933
Taxation	..	..	..	1,112	1,070	42
Directors' undrawn remuneration:	..	..	..
Mr B. C. Oxcourse	..	..	..	4,407	5,907	1,500
Mr A. D. Oxcourse	..	..	..	2,131	2,798	667
Mr B. B. Camcourse	..	..	..	1,321	1,639	318
Proposed dividend	..	..	..	613	613	—
	(B)	£	£	39,102	45,460	6,358

Net Assets (A) -- (B)

REPRESENTED BY

Share capital ..	..	..	10,000	—
Retained profits	..	..	10,882	4,090
	..	..	14,972	
Future taxation	..	..	2,600	300
	..	..	2,900	£2,600 added ex profit and loss account
			<hr/>	<hr/>
			£23,482	£4,390
			<hr/>	
			£27,872	

tion of the sales for the last few months of the year shows that the 1961 debtors were made up of the whole of the March sales, 50 per cent of the February sales, and 20 per cent of the January sales. As this was largely in accordance with the pattern of the previous year, there is nothing which calls for special inquiry.

- (vi) The small variation in the cash in hand and the prepayments do not require any comment.
- (vii) There is an increase of £921 in the hire-purchase liabilities on the motor vehicles, from £324 to £1,245. This increase has

helped to finance the capital expenditure on motor vehicles during the year, as noted in sub-paragraph (i).

- (viii) The bank overdraft has increased by £1,061, and the balance sheet has shown that it was £924 above its agreed limit at March 31st, 1961.
- (ix) The creditors have increased by £1,933. It is not strictly realistic to apply the 20 per cent sales uplift test to this item, but an analysis of the creditors shows that after excluding accruals, the bought ledger creditors represent the total of the invoices rendered during the months of February and March – which follows the pattern of the previous year.
- (x) The directors already know that they have been unable to draw their full salaries for the year, the withholdings being £1,500 for Mr B. C. Oxcourse, £800 for Mr A. D. Oxcourse (minus £133 P.A.Y.E. paid on his previous year's undrawn salary), and £400 for Mr B. B. Camcourse (minus £82 P.A.Y.E. paid similarly).

22. The overall picture, therefore, is that the company had a net cash income during the year of £11,435 and disposed of £18,260 – and that it got through the year by raising a further £921 on hire-purchase contracts, borrowing a further £1,061 from the bank, taking further credit from suppliers to the extent of £1,933, withholding £2,485 from its directors' salaries, and by receiving a small windfall of £415 for a refund of rates.

Calculating the Cost of Expansion

23. From the picture shown by the statement of application of profit it is possible to go a stage further.

It comes as a surprise to most clients when they are told that an increase in sales will probably leave them short of money. It is quite a simple exercise to convince them that this is the case – if the trading profit is 10 per cent and the debtors at any one time represent one and a half months' sales, then on an increased turnover of £12,000 (assuming it to be maintained at the end of the year), the profit on those sales would be £1,200 and the lock-up in debtors would be £1,500 – hence the liquid resources would be depleted by £300, to which might have to be added any concomitant increase in the stock of production materials, less any increase in the creditors for those materials. That £300 deficit will be made good out of next year's profit of £1,200 on that increased turnover (if in fact it recurs), but if there is a further increase next year, then the cash deficit may increase once more – eventually, perhaps, to a point at which the business becomes financially embarrassed.

24. The sales of the Oxcourse company increased during the year ended March 31st, 1961, and it would be useful to calculate the cost of that expansion in terms of its effect on the bank overdraft and the credit position generally. The turnover increased by £24,981 during the year, and on the basis that the

Appendix D

OXCOURSE MANUFACTURING CO LTD

APPLICATION OF PROFIT

Year ended March 31st, 1961

NET PROFIT FOR THE YEAR	£	4,288
Add Provision for depreciation and loss ..		
on sales	3,260	
Provision for taxation	3,887	

CASH BENEFIT OF PROFIT £11,435

APPLICATION

(1) <i>Additions to fixed assets</i>	£	
Works premises	1,112	
Plant and machinery		
(£2,124 less Sales £650)	1,474	
Fixtures and equipment	103	
Motor vehicles		
(£2,924 less Sales £653)	2,271	
		<u>4,960</u>

(2) *Payment of taxation liabilities*

On 1959 profit		
Schedule D, 1959–60 (balance) ..	308	
Profits tax (balance)	112	
On 1960 profit		
Schedule D, 1960–61	2,572	
Profits tax (on account)	550	
Schedule A – 1960–61	87	
		<u>3,629</u>

(3) *Payment of dividend*

Dividend of 10 per cent (1959–60) paid		
September 1960	613	

(4) *Added to working capital*

Increase in stock	2,656	
Increase in work in progress	2,110	
Increase in debtors	4,247	
Increase in cash in hand	45	
		<u>9,058</u>

18,260

Less: Proportion of the above financed by:

Increase in hire-purchase liabilities ..	921	
Increase in bank overdraft	1,061	
Increase in creditors	1,933	
Increase in directors' undrawn salaries:		
Mr B. C. Oxcourse .. £1,500		
Mr A. D. Oxcourse .. 667		
Mr B. B. Camcourse .. 318		
	2,485	
Decrease in prepayments	10	
Refund of rates	415	
		<u>6,825</u>

AS ABOVE

£11,435

outstanding debtors represent 170 per cent of one month's sales (paragraph (21) (v)), that increased turnover has resulted in the creation of new debtors to the extent of at least 170 per cent of one-twelfth of £24,981, which would be £3,539 – in fact, due to the increase in sales having been more significant towards the end of the year it was £4,247 (as shown by the statement of application of profit). We have seen that the increased sales have resulted in an increase of at least £1,149 in the stock and £2,042 in the work in progress, so that the total investment in debtors, stock, and work in progress which has resulted from the increased turnover is £7,438. The creditors have increased by £1,933 (not all of which was necessarily attributable to the increased sales), but if that is allowed to be off-set in full, there has been a net expansion investment of £5,505.

25. It now remains to be seen whether that expansion investment has been self-financing. We have seen from the analysis of trading results that the additional sales brought in a prime cost profit of £9,243, but that there were additional manufacturing and trading expenses amounting to £4,926. We do not know whether all those expenses were necessitated by the expansion, but we shall not be very far out if we say that the profit which has accrued from the £24,981 additional sales is 12.5 per cent (the rate of trading profit shown by the accounts).

26. On that basis, the profit has been £3,123 – and as the net expansion investment was £5,505 it means that the expansion has resulted in a cash deficit of £2,382. In so far as that deficit can be met out of the cash benefit of the profit from the previously-established turnover, all well and good – but if that profit (as in this case) has been applied in capital expenditure in excess of the depreciation provision paying arrears of taxation liabilities, and building up stocks above their normal level, the expansion can only result in a strain on the company's liquid and credit resources.

27. The advice to be given to the Oxcourse directors is clear – the anticipated expansion for next year should be measured by reference to its probable cost in terms of additional debtors, stocks, and work in progress, and if the cash benefit of next year's profit (which for this purpose can be taken to be the sum of the cash benefit of this year's profit plus the profit on next year's expansion) is not sufficient to cover the taxation payments, dividend, and essential capital expenditure of next year plus that expansion investment, then either the expansion programme will have to be trimmed until it will fit the available resources, or some additional finance will have to be sought from outside.

28. The preparation of the three statements I have referred to in this section (the analysis of trading results, the summarized balance sheet and reconciliation of increase in net assets, and the statement of application of profit) is an ancillary service to the preparation and auditing of the annual accounts. These statements, along with the help and the guidance which the accountant can give in interpreting them, help the company and its directors to extract every ounce of relevant information from their accounts – and in providing this service to the private company the professional accountant assumes the role of the financial director or experienced chief accountant who advises the board of a public company.

29. My own experience is that these additional statements are very greatly appreciated, and I have often found, having circulated the accounts and statements a few days in advance of a board meeting, that all the directors had read the statements and could almost recite the figures from memory, but had ignored the accounts except to compare the expense figures. In cases where the expense headings were sufficiently numerous to justify putting in a comparative statement with figures of increases and decreases, I have in fact known the accounts themselves to be completely ignored. (*To be continued.*)

Weekly Notes

The Institute's Cambridge Course

THE decision by The Institute of Chartered Accountants in England and Wales to hold a second Summer Course this year has proved to be well founded; not, of course, that there was ever any serious doubt about it in view of the annually increasing numbers who were disappointed in trying to book for the courses at Oxford. Nevertheless it is pleasing to note in the President's foreword to the programme for next week's course at Cambridge

that the 'course has been heavily oversubscribed'.

During the period of the course which is to take place at Gonville and Caius College from Wednesday next until Sunday, three papers will be presented. The first on Thursday, following a short address of welcome by the President, Mr P. F. Granger, F.C.A., will be by Mr J. C. Walker, F.C.A., on 'The employment of capital'. The second, on Friday, by Mr H. W. Sydenham, F.C.A., will deal with 'Some considerations in relation to the accounting treatment of stock-in-trade and work in progress'; while on Saturday, Sir Donald Perrott, K.B.E., formerly member for finance and administration of the United Kingdom Atomic Energy Authority, will address the course on 'What the business man expects of the practising professional accountant'.

While, as the President says, the course will of necessity be 'cast in the Oxford mould' with emphasis

on ample time being provided for group and private discussion and the free exchange of views, members will also have opportunities for other pursuits including visits to the establishment of Pye Ltd, and Ely Cathedral, as well as to participate in conducted tours of Cambridge and a golf tournament.

The course will conclude with a Guest Night Dinner presided over by Mr P. F. Carpenter, F.C.A., Vice-President of the Institute and Chairman of the Summer Course Committee.

We look forward to reproducing the papers in later issues of *The Accountant*.

Need for Additional Business Statistics

AT the British Association meeting Mr Nicholas A. H. Stacey, Economic and Marketing Adviser to the General Electric Co Ltd and formerly an Assistant Secretary of the Association of Certified and Corporate Accountants, put forward a plea for improved statistics relating to distribution, particularly on the retailing side. In a paper entitled 'The impact of distributive developments on the British economy' he pointed out that in the manufacturing industries four full censuses of production have been taken in the post-war years. In the merchandising and service trades the first full census of distribution related to 1950 and a sample census was taken in 1957. The next full census of distribution will relate to 1961; the gap between full manufacturing censuses is four years and between full distribution censuses eleven years.

Mr Stacey pleads for more frequent censuses in the distributive trades and also for additional information between censuses about the formation, merger, or dissolution of businesses of all kinds in distribution, service and manufacturing, and suggests that the Registrar of Companies should collate this information and publish it annually. He rightly argues that in a swift-moving business world such commercial intelligence is vital since it provides helpful guidance to Government and industry of the 'shape of things to come'.

Interfirm Comparisons

THE application by the Government to join the European Common Market lends added interest to the second report of the Centre for Interfirm Comparison established two years ago by the British Institute of Management. The first report was reviewed in these columns on September 10th, 1960.

The centre is now active in twenty industries compared with fifteen a year ago and special efforts have been made during the past year to intensify contacts with organizations within the European Free Trade Association and the European Common Market. The first step is to persuade overseas organizations to adopt the centre's ratios for comparison with the result that the rate of progress cannot be very rapid in the early stages. The centre has, however,

been able to report some success in Scandinavian countries and particularly in Spain where a national management organization has conducted comparisons in five industries.

If the United Kingdom joins the Common Market what will matter most will be how individual British manufacturers compare in efficiency with competitors in Germany, Italy and France. In the meantime, however, comparison with other companies in Britain is of great value in helping to raise the general level of industrial efficiency. In its report the centre draws attention to the wide range of results as between one company and another; for example, in one industry the time taken to produce a standard product showed a variation of two and a half to one while in another the time taken to collect outstanding debts ranged from fifty-four to 107 days.

Experience of the first two years has shown that the security arrangements adopted are satisfactory; comparisons can be made in such a way that individual company's figures remain confidential. It is also claimed that acknowledged leaders in an industry agree that their participation can be of value to themselves, for example, by helping to restore the reputation of the industry as a whole if this has been lost due to inferior or delayed deliveries by the less efficient manufacturers.

'Instant' Dividend at the Co-op.

THE first 'instant' dividend co-op. store at Leicester was referred to in *The Accountant*, dated February 4th, 1961. It is now reported that the scheme, which was subsequently extended to Derby, Lincoln and Nottingham, has been sufficiently successful for a number of other societies to consider adopting it. It is claimed that turnover at Leicester has grown by 40 per cent and that the number of non-members using the shop has grown rapidly. At Derby the results are said to have been satisfactory but less so than at Leicester and a number of older customers are said to have preferred the traditional dividend policy.

There is evidence that the Co-operative Movement views this development with some anxiety since if it were to become general the dividend might well disappear altogether. There would then be little to distinguish the co-op. stores from ordinary cut-price grocery shops and the movement's policy of encouraging saving by paying dividends only twice yearly would be undermined. If further experience shows that the 'instant dividend' (or price cutting) is the only way to prevent loss of trade, the movement will clearly be faced with a very difficult decision.

Financial Assets of Local Authorities

IN November 1960 the Chancellor of the Exchequer announced that following a recommendation of the Radcliffe Committee it was proposed to invite all local authorities to complete a statement of their holdings of investments at December 31st, 1960, and

a summary statement of their new borrowing every quarter from the beginning of 1961; and a representative sample of authorities to complete more detailed statements of their new borrowing, their transactions in financial assets and their revenue surpluses every quarter from the beginning of 1961, and to furnish annual statements of their holdings of investments at December 31st, 1961 and in later years.

The August issue of *Economic Trends* published the results of the first of these inquiries, and the results of a simultaneous inquiry into the holdings of investments by local authority pension and superannua-

tion funds. At the end of 1960 the holdings of local authorities and of their superannuation funds each amounted to about £550 million. In the funds of local authorities mortgages for house purchase or repairs constituted over half the total, inter-authority investments 16 per cent, British Government and Government guaranteed securities 14 per cent, while over 10 per cent of the assets were in the form of cash. In the case of superannuation funds nearly half the total comprised internal advances (i.e. advances to the parent authority), about one-third British Government securities and 10 per cent inter-authority investments.

This is My Life . . .

by An Industrious Accountant

CHAPTER 88

I REMEMBER being sent one summer long ago to audit the accounts of a little holiday hotel run by a widow and her three pretty daughters. They had the minimum in the way of books, records, or organization; they just coped cheerfully with all their chores, provided lavish food and smiling hospitality, the result being that their hotel was packed throughout the season. They were making a fortune without the benefit of professional assistance, hence they tended to regard auditors as well-meaning bookworms whose sole useful function was to advise on their Schedule D computation.

Conscious of my limited experience, I concentrated on the routine audit work, comment on *table d'hôte* economics or the profits arising from the private snug (open surreptitiously till 3 a.m. on special nights) being beyond me. Nevertheless my time was to come. One afternoon the widow put down the phone with a strangled shriek of dismay: two coachloads of tourists were being diverted to her hotel at short notice; could she feed sixty-seven people in an hour's time? It was all hands to the pumps.

She fixed me with an eye at once dominating and wheedling; her car was away, her daughters improvising frantically – if I could get this twelve-gallon milk-can filled at Wilson's farm immediately, the day would be saved. So powerful was her personality that I was chugging out into open country in my little two-seater before I realized that milk-transport was not included in my audit programme.

In the heavy summer sun-glare the little farm seemed deserted. I knocked on three unresponsive doors before deciding to trek down the long yard, hallooing reassuringly and rattling my canister. The result was surprising. A horde of assorted chickens, ducks, turkey cocks, came running from all directions,

chirping, quacking, feathers bristling, beady eyes staring. One fat brown hen fairly took off in her frenzied rush and landed on my chest; some pigs came grunting in her wake. A nasty peck at my leg announced the onslaught of a gaggle of geese, wings spread, necks stretched, hissing viciously. I really thought they'd eat me.

Fortunately I was saved by the arrival of a lean, brown, wrinkled character in kneeboots, and to him I explained our problem. 'Can't let down the hotel', he ruminated. 'How many gallons will you want?' When I suggested twelve, preferably pasteurized, he seemed taken aback, but murmured that Brown Bessie would do her best to oblige.

He said he'd bring in six cows there and then, so together we went off through byres and haggards to collect them. 'Suck, suck, old lady', he encouraged Bessie, rubbing her hairy back; to avoid revealing my city-bred ignorance I did likewise to another, a hulking black brute which promptly bucked and trod on my foot. Another clumsy animal with a decidedly unhygienic wet flank tacked about heavily, pushing me ankle deep into a morass at the gate. The whole monstrous regiment lumbered spatteringly after me and in my hurry my shoe stuck in the mud and got left behind.

I shouted to Farmer Wilson about it and he seemed anxious to help; he sent Rover to get it, though that well-meaning collie scarcely improved the shoe in his salvage efforts. A strand of barbed-wire near the gatepost had unfortunately impaled my sleeve, or I might have saved it myself. Farmer Wilson seemed somehow puzzled as he bandaged my arm, which bled profusely; he kept shaking his head and saying he'd seen everything now.

However, that was nothing to the sensation created among the tourists in the hotel lounge when I staggered in claspings the heavy can to my bosom, dripping mud, blood and milk, and looking like the Relief of Mafeking. The tourist agency asked the widow to repeat the episode weekly, and she wrote enthusiastically to my principal afterwards saying that she never before had such invaluable assistance and co-operation from her auditor.

It just goes to show what a wide range of services our profession renders to its clients.

Finance and Commerce

Metal Industries

THE accounts of Metal Industries Ltd, a diversified group with interests including electrical, hydraulic and mechanical engineering, form the subject of this week's reprint.

Sir Charles Westlake, who became chairman nearly six years ago, says in his review with the accounts that the progress of the group depends on its ability to adapt itself to continually changing conditions. When Metal Industries came into being just under forty years ago, it was a small shipbreaking concern operating from a rented quay on the Firth of Forth. Today it is one of the leading electrical engineering groups in the United Kingdom.

Now the point has been reached, where the decision has been made to withdraw from marine salvage and because of its substantial and continuing losses to close down the subsidiary, Metal Industries (Salvage) Ltd, Sir Charles outlines the resettlement terms given to the sixty employees and pays tribute to the heroism and devotion of the salvage crews that gave assistance to 564 naval and merchant ships during the last war.

Individual Profits

The reprint includes a new accounting departure: a statement of the profits of the individual companies in the group. It has been suggested by one critic of the accounts that the purpose of this statement is to dispel the idea that Metal Industries is still a scrap metal and shipbreaking concern. But the production of this analysis of the group profit should not be lightly dismissed in such terms.

It is a very valuable advance in accounting practice showing, as Sir Charles points out, the sources of the group's strength and at the same time disclosing some weaknesses which the board, he says, is making every effort to remedy. The original metals and ship-breaking side now accounts for less than 10 per cent of profits. Electrical interests which, before the merger (in 1960) with the Lancashire Dynamo Group accounted for 55 per cent, now provide nearly 75 per cent, of profits.

But whatever may have been the original reason for the profit analysis, it sets a new standard of accounting information and an example for other companies to follow. Another interesting statement has also been included in the reprint: an analysis of the stockholdings which, among other things, shows that well over half the ordinary capital is held by

institutional investors – the insurance companies, investment trusts, pension funds, etc.

Asset Values

Sir Charles emphasizes that 'the value placed on fixed assets is based on historical cost and does not represent a reasonably accurate assessment of their current worth, especially after years of inflation'. Real asset values, he says, are not to be found in balance sheets or even in up-to-date professional valuations but in the profits the assets will earn. And this, he adds, depends on the quality of the management.

The point may be admitted. Forced sales of assets of a bankrupt business are not unknown. But there is another side to the picture, as may be seen from the number of companies which produce balance sheets incorporating up-to-date valuations. The importance of asset values cannot be lightly dismissed even though the main basis for share market values is profits – and prospects.

There is an interesting point from the company administration angle in the directors' report which shows that the warrants for the 9 per cent dividend (see profit and loss account) were to be posted on August 2nd, the annual meeting being called for September 19th. Incidentally, this is one of those companies that holds its meeting at different centres 'so that we can welcome a wider cross-section of our stockholders'. This year the meeting is in Glasgow where the company has its registered office; the head office is in London, where the meeting took place last year. In 1959, the meeting was in Birmingham. The practice breaks with tradition but there is everything to be said for it.

Retained in the Business

ANOTHER instance of the elimination of the A carry forward on profit and loss account is provided in this year's accounts of Goodlass Wall & Lead Industries Ltd, a name well-known in the paint industry and metal refining. One of the operating subsidiaries is Associated Lead Manufacturers Ltd, and despite the progress of 'synthetics', lead is still the base of many forms of paint.

The matter is dealt with briefly by Mr R. L. S. Lancaster, the chairman. 'In this year's balance sheet', he says, 'you will observe that the profit and loss balance has been transferred to revenue reserve', the effect of this and other adjustments on the reserve position being indicated in the notes on the accounts.

The elimination of the P. & L. carry forward is full of sound sense. In the first place, it means one less item in the balance sheet to distract the eye. The top half of the left side of the balance sheet is summed up in capital and reserves, the latter, of course, 'capital' and 'revenue'. Profit and loss account, except for such minor adjustments as previous year's tax over provisions, is the account of the year. What is finally left over is called 'Retained in the business' and goes to revenue reserve.

Consolidated Profit and Loss Account for the Year ended 31st March, 1961

1960	£	£	£
1,722,715	TRADING PROFIT (note 9)	.. .. .	2,339,656

428,376	After charging:		
3,750	Depreciation .. .. .	.. .. .	678,422
36,108	Directors' emoluments:	.. .. .
	Fees .. .. .	.. .. .	3,958
	For management .. .. .	.. .. .	61,873
7,101	Pensions to past directors and dependants	.. .. .	65,831
12,736	Auditors' remuneration and expenses .. .. .	.. .. .	7,149
34,029	Interest on bank overdrafts .. .. .	.. .. .	23,621
	And crediting:	.. .. .	102,773
2,319	Income from investments (gross) .. .. .	.. .. .	1,494
106,727	Interest on loans to local authorities, tax reserve certificates and deposits (gross) .. .. .	.. .. .	43,051

Exceptional profit arising from change in basis of valuation of stocks and work in progress of certain subsidiaries

96,387

2,436,043

Deduct:

TAXATION

695,477	United Kingdom:		
162,810	Income tax on profits for the year .. .. .	.. .. .	910,766
	Profits tax .. .. .	.. .. .	306,025
858,287		.. .. .	1,216,791
	Deduct:		
30,642	Transfer from taxation equalization reserve	.. .. .	65,570
	Overprovision in respect of previous years	.. .. .	153,784

827,645	Overseas .. .. .	.. .. .	219,354
7,509		997,437
835,154		42,357

1,039,794

1,396,249

TRADING PROFIT AFTER TAXATION

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160,651

1,235,598

8,751

1,226,847

PROFIT ATTRIBUTABLE TO METAL INDUSTRIES LIMITED

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Extracts from Notes to Accounts, 31st March, 1961

CONSOLIDATED BALANCE SHEET

- 1 Contracts for future capital expenditure are estimated at £132,000.
- 2 Companies concerned have undertaken to pay the balance of the Works Pension Fund initial contribution, amounting to £16,198, by equal annual instalments over the next two years.
- 3 Overseas currencies have been converted at the rates ruling at 31st March 1961.

4 Fixed Assets:

Gross book values are included either at cost or on the basis of valuations by directors at various dates since 1929 or at net book values at 31st December 1947 with additions since at cost.

5 Movements in share premium account:

Balance at 31st March 1960 £ 4,306,184

Add:

Premium on shares issued in purchase or part purchase of companies acquired during year 242,878

Premium on rights issue during year 2,526,904

Balance at 31st March 1961 £ 7,075,966

Deduct:

Expenses of share issues 123,176

Balance at 31st March 1961 £ 6,954,790

Deduct:

Amount capitalised by bonus issue in a subsidiary (transferred to general capital reserve) 19,190

Balance at 31st March 1961 £6,935,600

Movements in general capital reserve: £ 342,160

Balance at 31st March 1960 19,190

Amount capitalised by bonus issue in a subsidiary 7,676

Other amounts 26,866

Balance at 31st March 1961 369,026

Goodwill on purchase of subsidiaries during year 214,520

Balance at 31st March 1961 £154,506

Movements in revenue reserves of subsidiaries:

Balance at 31st March 1960 £ 251,344

Add:

Profits retained by subsidiaries 8,751

Balance at 31st March 1961 £260,095

Bank overdrafts of certain subsidiaries, amounting to £36,118, are secured.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

- 9 The consolidated profit and loss account includes the results of companies in the former Lancashire Dynamo group for the fifteen months ended 31st March 1961 and of companies in the Alco group for the nine months ended 31st March 1961. The comparative figures for the previous year do not include the results of these two groups.

CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS

13 Taxation:

- No provision has been made for United Kingdom taxation (less double taxation relief) which would arise in the event of overseas subsidiaries distributing reserves or unappropriated profits.
- 14 There is a contingent liability on the parent company, amounting to £45,000, in respect of the uncalled share capital of a trade investment.

1,211,280

15,467

968,380

£983,847

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METAL INDUSTRIES LIMITED

Stockholders 1951-1961

The issued ordinary capital of Metal Industries Limited at 31st March 1961 was £7,505,123 held by 9,824 members. This compares with £2,496,412 held by 4,249 members at 31st March 1951.

	Number		Stock Held: Amount		Stock Held: Per cent	
	1951	1961	1951	1961	1951	1961
Institutional Investors:						
Insurance companies	27	76	£ 99,652	£ 1,512,105	4.0	20.1
Investment trust companies	50	135	80,629	585,024	3.2	7.8
Pension trusts	4	49	5,400	454,861	.2	6.1
Banks and nominee companies	134	426	492,050	1,392,899	19.7	18.6
Other limited companies	33	89	46,983	138,453	1.9	1.8
Charitable, educational and religious bodies	3	24	45,000	178,738	1.8	2.4
Sub-total	251	799	769,714	4,262,080	30.8	56.8
Individual Stockholders:						
£1-500	3,612	7,742	620,823	1,604,597	24.9	21.4
£501-1,000	247	918	175,943	653,181	7.0	8.7
£1,001-5,000	112	346	216,994	580,586	8.7	7.7
£5,001 and over	27	19	712,938	404,679	28.6	5.4
Sub-total	3,998	9,025	1,726,698	3,243,043	69.2	43.2
Grand total	4,249	9,824	2,496,412	7,505,123	100.0	100.0
Individuals:						
Men	2,217	4,657	1,222,522	1,857,014	49.0	24.7
Women	1,781	4,368	504,176	1,386,029	20.2	18.5
Total	3,998	9,025	1,726,698	3,243,043	69.2	43.2

Profits of Individual Companies

	Previous year	1960-1961	% of Group profits		Previous year	1960-1961	% of Group profits
	£	£	%		£	£	%
Electrical and electronic control				Metals and scrap recovery			
Brookhirst Igranic Limited	810,466	882,082	37.7	Cox & Danks Limited	289,976	86,629	3.7
Lancashire Dynamo Electronic Products Limited	100,662	*53,606	2.3	John Allan & Company (Glenpark) Limi- ted	27,022	(3,480)	(.2)
Lancashire Dynamo Nevelin Limited	3,634	*7,684	.3			83,149	3.5
		943,372	40.3	Shipbreaking			
Electrical power and distribution				Hughes Bolckow Limited	44,431	49,440	2.1
Foster Transformers Limited	127,360	*153,950	6.6	Shipbreaking Industries Limited	87,664	83,247	3.6
Foster Electrical Supplies Limited	151,602	*174,778	7.5			132,687	5.7
J. G. Statter & Company Limited	286,647	*111,942	4.8	Salvage			
Lancashire Dynamo & Crypto Limited		440,670	18.9	Metal Industries (Salvage) Limited	(14,949)	(20,080)	(.9)
Electrical instrumentation				Miscellaneous			
Avo Limited	144,914	148,440	6.3	Ferrous Castings Limited	(27,937)	—	—
Crypton Equipment Limited	74,168	*91,245	3.9	Minerva Mouldings Limited	15,755	*25,887	1.1
Taylor Electrical Instruments Limited	4,549	(4,708)	(.2)	New Eagle Foundry Company Limited	2,171	4,042	.2
		234,977	10.0			29,929	1.3
Electrical installation and service				Overseas companies	19,510	53,802	2.3
Cable Jointers Limited	57,265	*73,550	3.2	TOTAL TRADING PROFITS OF ALL GROUP COMPANIES		2,270,431	97.0
Malcolm & Allan Limited	30,294	*19,535	.8	Metal Industries Limited	111,767	29,433	1.3
Dynamo & Motor Repairs Limited		93,085	4.0	Lancashire Dynamo Holdings Limited	(35,698)	*39,792	1.7
				Lancashire Dynamo Group Sales Limited		2,339,656	100.0
Hydraulic and mechanical engineering							
Crypto Limited	57,215	*93,780	4.0				
Farmer Brothers (Shifnal) Limited	(10,707)	(5,177)	(.2)				
Fawcett Preston & Company Limited	60,680	(58,707)	(2.5)				
Towler Brothers (Patents) Limited	216,050	248,944	10.6				
Electraulic Presses Limited		278,840	11.9				

Notes: Figures in parentheses indicate losses.

Items marked * cover fifteen months, from January 1st 1960 to 31st March 1961.

CITY NOTES

THE stock-markets are restive. Business is still small but there are unmistakeable signs of a growing view that at present prices the worst of political and economic uncertainties is discounted and that waiting will not provide better investment opportunity.

The weight of money, particularly trustee money, ready for investment is beginning to tell. Whether the argument for investment now is valid, can only be proved by events. Prevailing business suggests that 'buy now' is the small investor's rather than the institutional investor's view of the equity market.

Ahead there is undoubtedly a very considerable move towards funding of bank borrowings, and the supply of new shares on the market could possibly outgrow comparatively limited demand - particularly if the present tentative improvement falls foul of discouraging industrial earnings and labour news.

There has recently been news of surprisingly heavy rights offers for bank money funding purposes and the next few weeks are likely to see growing activity in the new capital market.

RATES AND PRICES

Closing prices, Wednesday, September 6th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate			
June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills			
June 30	£4 10s 8.94d%	Aug. 4	£6 14s 3.33d%
July 7	£4 10s 8.80d%	Aug. 11	£6 14s 8.51d%
July 14	£4 11s 4.47d%	Aug. 18	£6 14s 1.83d%
July 21	£4 12s 5.62d%	Aug. 25	£6 14s 0.12d%
July 28	£6 13s 9.22d%	Sept. 1	£6 14s 0.50d%

Money Rates			
Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6½%
Fine Trade Bills		3 months	6½-6½%
3 months	7½-8½%	4 months	6½-6½%
4 months	7½-8½%	6 months	6½-7%
6 months	8-9%		

Foreign Exchanges			
New York	2.81 ½-1 ½	Frankfurt	11.22 ½-23 ½
Montreal	2.89 ½-7 ½	Milan	1744 ¼
Amsterdam	10.14 ½-15	Oslo	20.01 ½-02
Brussels	139.97 ½-2 ½	Paris	13.82 ½-38 ½
Copenhagen	19.34 ½-35 ½	Zürich	12.12 ½-1 ½

Gilt-edged			
Consols 4%	59 ¾	Funding 3%	59-69
Consols 2½%	38 ¾xd	Savings 3%	60-70
Conversion 5½% 1974	80 ¾	Savings 3%	65-75
Conversion 5% 1971	88 ¾	Savings 2½%	64-67
Conversion 3½% 1969	81 ¾	Treasury 5½%	2008-12
Conversion 3½%	52 ½xd	Treasury 5%	86-89
Exchequer 5½% 1966	96 ¾	Treasury 3½%	77-80
Funding 5½%	82-84	Treasury 3½%	79-81
Funding 4%	60-90	Treasury 2½%	37 ¾xd
Funding 3½%	99-04	Victory 4%	93 ½
Funding 3%	66-68	War Loan 3½%	53 ½

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for the opinions expressed.

Advisory Service for Members

SIR, - I was most interested to read in *The Accountant*, August 26th, the reference under 'The Accounting World' to the 'C.P.A. Consultation Service'.

Would it not be possible for our own Institute to provide its members with a similar service? Such a service would surely be greatly appreciated by the vast majority of chartered accountants in practice, especially the sole practitioners, and should not prove too expensive to run.

Yours faithfully,

London ECI.

M. BIER, B.COM., A.C.A.

Estate Companies

SIR, - I have read with interest the article 'Estate Companies' in your issue of August 26th.

Your contributor, however, in quoting the *Worsley Brewery* case under the heading 'Commissioners' Decision', seems to infer that the appeal would be heard by the General Commissioners 'as business men'. Surely an appeal under Section 425, Income Tax Act, 1952, is heard by the Special Commissioners?

Yours faithfully,

Brighton I.

JASON S. MEYLER.

[Our contributor writes: 'I agree that the Special Commissioners who deal with Section 425 claims are not business men but the distinction I sought to emphasize in the article is that between lawyers and laymen. The Court of Appeal has recently emphasized the value of local knowledge on the part of bodies of General Commissioners (*Forest Side Properties (Chingford) Ltd v. Pearce*) and the more general knowledge derived by the Special Commissioners from the hearing of appeals and other experience likewise puts them in a favourable position as compared with a court of law bound by much more formal rules of evidence'.]

Taxpayers and the Revenue

SIR, - We should like to express our thanks to Mr A. W. Nelson for the article which appeared in your issue of July 22nd. He has emphasized the major problem in taxation work facing practitioners today, and we hope there will be some practical outcome from his suggestions. We particularly commend the dignity and restraint of the language used in the article, the points in which must be familiar and of grave concern to all practising accountants.

Yours faithfully,

BEAL, YOUNG & BOOTH,
Chartered Accountants.

Southampton.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Limited, 151 Strand, London WC2

STATUTES

(9 & 10 Eliz. 2)

Chapter 43: Public Authorities (Allowances) Act, 1961

An Act to provide for the amendment of the conditions giving entitlement to payment of certain allowances to members of bodies to which Part VI of the Local Government Act, 1948, applies, and to members of certain bodies constituted under the National Health Service Act, 1946, and the National Health Service (Scotland) Act, 1947, and to payment of travelling allowances to justices of the peace and members of probation and other committees constituted under the Criminal Justice Act, 1948; and for matters connected therewith.

Price 9d net.

July 19th, 1961.

Chapter 44: Barristers (Qualification for Office) Act, 1961

An Act to make provision with respect to the qualification for office of barristers who have been solicitors, and for purposes connected therewith.

Price 3d net.

July 19th, 1961.

Chapter 45: Rating and Valuation Act, 1961

An Act to amend the law with respect to the valuation of property for the purposes of rates and with respect to the making and collection of rates.

Price 2s 6d net.

July 27th, 1961.

Chapter 46: Companies (Floating Charges) (Scotland) Act, 1961

An Act to amend the law of Scotland so as to empower companies to give security by way of floating charges; and for purposes connected therewith.

Price 1s net.

July 27th, 1961.

Chapter 47: Mock Auctions Act, 1961

An Act to prohibit certain practices in relation to sales purporting to be sales by auction.

Price 4d net.

July 27th, 1961.

Chapter 48: Land Drainage Act, 1961

An Act to enable river boards and catchment boards to raise drainage charges for the purpose of meeting part of their expenses; and to make further provision relating to the drainage of land and to drainage boards.

Price 2s 6d net.

July 27th, 1961.

Chapter 49: Covent Garden Market Act, 1961

An Act to establish a Covent Garden Market Authority and vest in them lands in the parish of Saint Paul, Covent Garden, and chattels the property of Covent Garden Market Ltd; to make provision for the conduct in, and adjacent to, Covent Garden, under the control of the Covent Garden Market Authority, of activities relating to the dealing in bulk in horticultural produce; and to make provision with respect to matters arising out of the matters aforesaid.

Price 3s net.

July 27th, 1961.

Chapter 50: Rivers (Prevention of Pollution) Act, 1961

An Act to make further provision for maintaining or restoring the wholesomeness of the rivers and other inland or coastal waters of England and Wales.

Price 1s net.

July 27th, 1961.

Chapter 51: Police Federation Act, 1961

An Act to amend the law relating to the Police Federation.

Price 4d net.

July 27th, 1961.

Chapter 52: Army and Air Force Act, 1961

An Act to continue, and amend, the Army Act, 1955, and the Air Force Act, 1955; to amend the Courts-Martial (Appeals) Act, 1951; to validate the employment of British protected persons in certain military and air forces; and for purposes connected with the matters aforesaid.

Price 2s net.

July 27th, 1961.

Chapter 53: North Atlantic Shipping Act, 1961

An Act to enable the Minister of Transport to make advances to Cunard White Star Ltd in connection with the construction of a large vessel for the North Atlantic shipping trade, and to enter into agreements with them concerning insurance risks connected with such a vessel.

Price 4d net.

July 27th, 1961.

Chapter 54: Human Tissue Act, 1961

An Act to make provision with respect to the use of parts of bodies of deceased persons for therapeutic purposes and purposes of medical education and research and with respect to the circumstances in which post-mortem examinations may be carried out; and to permit the cremation of bodies removed for anatomical examination.

Price 4d net.

July 27th, 1961.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Notes and Notices

PROFESSIONAL NOTICE

MESSRS ALFRED NIXON, SON & TURNER, Chartered Accountants, of 40 Brazennose Street, Manchester 2, announce that Mr HAROLD BOWERS, F.C.A., retired from the partnership on August 31st, 1961, after more than forty years with the firm. The practice is being continued by the remaining partners.

Appointments

Mr B. B. Mill, D.F.C., F.C.A., assistant secretary of Joseph Rank, Ltd, has been appointed secretary of the company.

Mr I. M. Maclay, F.C.W.A., A.C.I.S., has been appointed assistant managing director of William Hollins & Co Ltd.

Mr E. Tolson, B.COM., F.C.A., has accepted an invitation to join the board of Mitchells, Ashworth, Stansfield & Co Ltd.

Mr J. R. Vernede, F.C.A., has been appointed a director of Longbourne Holdings Ltd.

Mr F. R. Gunton, F.C.A., has been appointed finance assistant to the line traffic manager, Manchester, British Railways, London Midland Region.

Mr L. Elliott, A.C.W.A., has been appointed traffic accountant, Sheffield, British Railways, Eastern Region.

Mr J. A. M. Kinnear, M.A., LL.B., C.A., has been appointed secretary accountant of Central Farmers Ltd.

Retirement

Mr W. F. Serby, F.C.A., F.I.M.T.A., County Treasurer of Buckingham since 1929 and Treasurer of the Bucks Water Board since its inception in 1937, is to retire on September 30th. A Past President of the Society of County Treasurers, Mr Serby was previously County Accountant of Cornwall from 1926 to 1929.

PROSPECTIVE PARLIAMENTARY CANDIDATE

Mr Frank Henry Taylor, F.C.A., senior partner in the firm of Frank H. Taylor & Co, Chartered Accountants, of London, has been adopted as prospective Conservative candidate in the forthcoming by-election at Manchester (Moss Side). Mr Taylor, who is 54 years of age, unsuccessfully contested elections at Newcastle under Lyme in 1955 and Chorley in 1959.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

Discussion Group

A meeting of the Manchester Society of Chartered Accountants' Discussion Group will be held at 5.45 p.m. for 6 p.m. on September 20th, in the Chartered Accountants' Hall, 46 Fountain Street, Manchester, 2, with the chairman of the group, Mr G. A. Spencer, F.C.A., presiding. The subject for discussion will be 'The Parker Report on Education and Training for the Profession' and the leader will be Mr M. J. Croll, A.C.A.

The programme up to the year-end, is as follows:

October 18th. 'Expenses for taxation - to allow or not to allow'.

November 20th. 'Cash budgets'.

December 12th. 'Some possible abuses of a private limited company'.

Annual Dinner

It has been suggested that some members of the group may like to form a party at the annual dinner of the Manchester Society of Chartered Accountants on November 16th. Members wishing to join the Discussion Group table at the dinner are requested to inform the honorary secretary, Mr J. G. Shepherd, F.C.A., at the above address.

THE LEEDS AND DISTRICT CHARTERED ACCOUNTANT STUDENTS' ASSOCIATION

The first lecture meeting of the 1961 autumn session of The Leeds and District Chartered Accountant Students' Association will be held at The Leeds and County Conservative Club, Leeds, on September 13th when Mr A. J. Ward, B.Sc.(ECON)., will deliver a lecture on 'Current financial topics'.

The interesting programme of professional subjects will also include a mock civil court action and a visit to The English Steel Corporation Ltd, Sheffield. A three-day non-residential course is to be held in October.

Honorary secretary of the Association is Mr W. H. J. Morsy, 'Milestone' 29 Breary Lane, Bramhope, Nr Leeds.

UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

Members of students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area.

There is also an arrangement for transfer of membership without additional fee for members who perma-

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nently change their district. The interchange should be carried out through the secretaries of the societies concerned.

Students' societies hold meetings in the following towns:

Ashford (Kent), Bedford, Birmingham, Blackpool, Bournemouth, Bradford, Brighton, Bristol, Cambridge, Canterbury, Cardiff, Carlisle, Chelmsford, Chester, Coventry, Derby, Doncaster, Dorking, Eastbourne, Epsom, Exeter, Grimsby, Guildford, Hastings, Hereford, Hull, Ipswich, Leeds, Leicester, Lincoln, Liverpool, London, Luton, Maidstone, Manchester, Newcastle upon Tyne, Newport (I.W.), Northampton, Norwich, Nottingham, Oxford, Plymouth, Portsmouth, Preston, Reading, Redhill, Sheffield, Shrewsbury, Southampton, Southend, Stockton-on-Tees, Stoke on Trent, Swansea, Taunton, Torquay, Truro, Wolverhampton, Worcester, Workington, York.

THE INSTITUTE OF INTERNAL AUDITORS London Chapter

The next meeting of the London Chapter of The Institute of Internal Auditors will be held on Wednesday, September 13th, at 12.30 p.m., at *The Kingsley Hotel*, Bloomsbury Way, WC1, when Mr R. W. F. Rice, controller, H. J. Heinz & Co Ltd, will address members on 'Financial control of fixed assets'.

Inquiries about membership of the London Chapter should be addressed to the secretary, Mr J. H. Protheroe, A.A.C.C.A., F.I.M.T.A., chief internal auditor, The British Oxygen Co Ltd, Bridgewater House, Cleveland Row, London, SW1.

TAKING STOCK OF MANAGEMENT EDUCATION

The report of a conference held at the Federation of British Industries on April 27th, last, to review management education and to discuss plans for the future has been published entitled *Stock-taking on management education*.

The conference provided an opportunity for a review of what has been done in the past decade at the Administrative Staff College; what has been achieved by management consultants; and the work of the universities, technical colleges and the British Institute of Management. Colonel Urwick in talking of the management consultant said that this country is at present very poverty-stricken in its provision of basic educational facilities at undergraduate and graduate levels. The steps that are already being taken by the universities and technical colleges to remedy this situation were given in some detail by Sir Owen Wansbrough-Jones, Professor Tress and Mr J. W. Platt. The general discussion which followed the papers is reported in full, together with the summing up by Sir Norman Kipping, Director-General of the FBI.

The report is obtainable from FBI Print and Publications, 21 Tothill Street, London, SW1, price 10s post free (excluding airmail).

TAXATION AND LIFE INSURANCE

The Dutch Association of Life Insurance Companies (N.V.B.L.) is to publish early next year a volume of papers on the subject 'Taxation and life insurance'. The papers which have previously appeared in *Het Verzekerings-Archief* comprise:

'Les impôts et l'assurance sur la vie en Belgique', by J. Crockaert and J. F. Gieling.

'Steuern und Lebensversicherung', by Dr Erich Kiehnscherf.

'Taxation of Life Assurance and Annuity business in the United Kingdom of Great Britain', by C. E. Puckridge.

'Le régime fiscal français et les compagnies d'assurances sur la vie', by M. Malinski.

'The taxation of Life Insurance in the United States', by Alfred N. Guertin and Stuart McCarthy.

'Les impôts et l'assurance sur la vie en Italie', by Dr Filomeno Santoro.

'Les impôts et l'assurance sur la vie aux Pays-Bas', by Dr H. L. Drost.

Copies of the publication can be obtained on application to the Secretary of The Dutch Association of Life Insurance Companies (N.V.B.L.), Emmalaan 41, before December 1st. Orders should be accompanied by a remittance of Fl.4 on post clearing account 85715, payable to the Secretaris van de N.V.B.L., Baeyer der Periodieke Uitgaven, at Utrecht.

TAX AND INTERNATIONAL INVESTMENT

The International Chamber of Commerce has recently published the report of its commission on taxation in a booklet entitled *Taxation Policies in Relation to International Investment*.

The report, which was approved at the Copenhagen congress of the I.C.C. last May, deals with the international allocation of taxing rights; the tax treatment of dividends and taxation policies to encourage the import and export of capital.

Copies of the booklet are obtainable from The International Chamber of Commerce, 15 Kingsway, London WC2, price 4s 6d.

ECONOMIC CONDITIONS IN SWEDEN

A further booklet in the 1961 series dealing with economic conditions in member and associated countries of the Organization for European Economic Co-operation has just been issued, and contains a comprehensive analysis of economic conditions in Sweden. The booklet is available from H.M. Stationery Office, price 3s.

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The Cambridge Course

THIS is not the place to compare the residential or other delights of the two universities but it is safe to say that the first summer course at Cambridge of The Institute of Chartered Accountants in England and Wales, now in session, looks like being as enjoyable and profitable as any of the longer established series - the fourteenth of which was held in July - at Oxford. The success of these ventures, towards which the setting, the standard of creature comforts and the companionship they engender are all contributory factors, must rest eventually on the quality of the papers themselves; and if this is the criterion then the Cambridge courses have indeed got off to a good start.

The paper by MR J. C. WALKER, F.C.A., on the employment of capital, presented on Thursday, is full of talking points as such dissertations should be and if its arguments concern a province rather more extensive than the average accountant's *milieu* (i.e. a world-wide manufacturing and marketing organization) that is to be counted as an advantage rather than as a drawback. The summer courses would not attain their objective if the topics discussed were already wholly within the compass of experience and immediate understanding of everyone.

By contrast, the paper given yesterday (Friday) by MR H. W. SYDENHAM, F.C.A., deals with a subject which nearly every accountant, even if he modestly does not consider himself an authority on it, holds definite views. Controversy about accounting treatment of stock-in-trade and financial accounts is new, recently by himself he

Policy for Planning

DURING the inter-war depression one of the many panaceas advocated for the solution of industry's lack of profitability was the policy of rationalization. So well known did the term become that a film was made about a young man who joined the staff of a large industrial undertaking and within months had been appointed chairman by the simple expedient of talking frequently and convincingly, albeit uncomprehendingly, about the need for rationalization. Now, in the mist of an economic recession of a different kind, a new word is to be heard on all sides betokening a solution to Britain's difficulties. 'Planning' is no longer a 'dirty word'—a reminder of controls, rationing and directives. It comes to the CHANCELLOR's lips and those of industrial spokesmen as easily as to a Marxist.

Not least as the result of the apparent success of French economic policy, which is based upon what is termed an *economie concertée*, consisting of voluntary co-operation of all branches of the economy in the implementation of centrally designed economic plans and projections, the term 'planning' has been freed from its distasteful connotation. A new and timely P.E.P. pamphlet¹ provides a brief account of the principles and economic planning mechanism which, according to its advocates, has achieved such success in during the past decade.

of the process of French
Général

sector of the economy. In a sense the commissions help to keep the Commissariat's economic experts' feet on the ground. Also, because they are consulted, and presumably in the last resort have some influence on policy affecting their particular sector of the economy, their co-operation in implementing the final agreed plan is ensured. Proof of the pudding is in the eating, and supporters of this policy have stressed the fact that French economic growth in recent years has been much higher than that in Britain or the U.S.A., and at present is, with the exception of Italy, the most rapid in Europe. It has also been suggested that Britain might do well to follow this example of democratic planning as a means of overcoming her own economic *malaise*.

The natural question is whether French experience with her three post-war four-year plans is a case of *post hoc ergo propter hoc*; or, as the cynic would put it, the French would make their economy function despite the plan rather than because of it! The P.E.P. pamphlet reports the views of two informed commentators. SIR ROBERT SHONE, who has had extensive experience of long-term planning in the steel industry, notes that the atmosphere of confidence and expansionism engendered by the formulation of a concerted plan, undoubtedly exerts a strong psychological effect on all branches of the economy. On a more realistic plane, however, the fiscal inducements in the form of generous depreciation allowances coupled with heavy pay- taxes, which discourage the wasteful use of have only stimulated the pace of invest- that the French plan guide

years to induce industry to co-operate is not so important as the knowledge that they are available to obtain co-operation in fulfilling the plan. As PROFESSOR DE WOLFF comments, 'the type of planning adopted in any particular country is a political choice', and he might have added in the context of his remarks that the present political situation in France is well suited to a policy of economic *dirigisme*.

An important contributing factor to the success of French planning has been the much smaller role of foreign trade in the French economy. Internal expansionist policies depend on the balance of payments position, and because of the greater dependence of Britain and the Netherlands on foreign trade, in these countries exports have always been treated as one of the factors setting a limit to the rate of growth. There is also a tendency for some critics of Britain's poor economic performance to overstate the success which has attended the French experiment. The pace of economic growth in France has been double that in Britain, but both prices and wages have risen faster than in most European countries. Despite the lesser dependence of France on foreign trade in the past, there have been two devaluations in the last five years, but these seem to have contributed with other factors to the impressive expansion in recent years of French exports which have become increasingly necessary as her dependence on imports has grown. Curiously enough, her experience in Empire markets has been similar to that of Britain in the Commonwealth, that is, her exports have been subjected to increasing and successful competition from other countries. The Government's neglect in recent years of agricultural interests also seems to be coming home to roost, and the French Government's 'austerity policy' may not be able to hold the existing level of incomes and prices for much longer. Some observers have also commented on the diminution of competition between firms in the same industry which has arisen from their co-operation in the plan for that industry.

This is not to deny, however, that some more intelligent means of regulating the British economy than the 'stop and go' technique of recent years are sorely needed. The Plowden

Committee's report¹ made a good start by urging the formulation of long-term objectives, the co-ordination of departmental policies to control Government expenditure, and a smoother control of investment in the nationalized industries. In other words, a British version of the *economie concertée*. It is this type of planning which the CHANCELLOR has in mind and which, no doubt, the Federation of British Industries visualizes when, as in recent months, its spokesmen talk of planning. Some interest has been aroused in the form that the proposed Economic Council should take. This is of little significance. The real question is: What powers will it possess to implement its decisions? Or more precisely, if the Government is to follow the Council's advice, to what extent will the CHANCELLOR and his colleagues be prepared to enforce co-operation. MR DOUGLASS, of the T.U.C., has declared that 'they would not be interested in any body which was divorced from the centre of power'. Translated, this means that the T.U.C. wants a say in the formulation and conduct of policy. This is quite right and proper, but if the T.U.C. has in mind a cosy and exclusive committee representing only industry, labour and the Government, one may reasonably object. This is too reminiscent of the inter-war development whereby industry and labour together persuaded the Governments of the time to spin a nice cocoon of protective devices about them. Far too many of those devices are still with us. What is needed for an economy subject, more than most other countries, to the stresses and strains of international competition, is a flexible and dynamic economy which keeps its industrial muscles in trim by having to compete in a highly competitive domestic market shorn of protection.

MR GEORGE WOODCOCK told the T.U.C. that they wanted a 'body capable of getting to grips with planning'. If he meant by 'planning' the development of a flexible economy in which labour and capital would move freely between jobs and industries all would agree. If, however, that body envisaged is expected to perpetuate a system under which redundant labour draws unemployment benefit for two days and wages for three, while capital collects subsidies from the Government to dispose of out-worn equipment, then the cure will be as bad as, if not worse than, the disease.

¹ *Control of Public Expenditure*. Cmd. 1432. H.M.S.O. 1s 9d net.

Should Britain Decimalize?

A STERLING PROPOSAL

by JACK CLAYTON, F.C.A.

MR GLADSTONE, in 1854, stated the case for a decimal currency with commendable brevity:

'I cannot doubt that a decimal system of coinage would be of immense advantage in monetary transactions. The weight of authority on that head is irresistible. . . .'

In 1961 the case was reaffirmed even more succinctly by the Council of The Institute of Chartered Accountants in England and Wales:

'The advantages of possessing a decimalized currency are widely known and not seriously disputed. . . .'

After such a close identity of view, the ideas of the two protagonists diverged in a surprising way. Whereas Mr Gladstone sought reasons for inaction, the Council of the Institute made an urgent plea for action. This vivid contrast between the respective conclusions of one then esteemed as 'the most active reformer of our times' (Laurier) and a body not generally regarded as a leader of radical thought, gives 'a true and fair view' of the current urgency of the problem.

Present-day Support

The present Government, in inviting expressions of view, indicated that they:

- (i) were seriously considering the introduction of a decimal currency;
- (ii) appeared to share Gladstone's convictions as to its merits and authoritative support for its introduction;
- (iii) were seized with the urgency of the matter, having regard to the increasing costs of delay.

In February last the Institute issued a statement of unqualified support; and other supporters include The Institute of Chartered Accountants of Scotland, The Institute of Municipal Treasurers and Accountants, The British Association for the Advancement of Science and The Association of British Chambers of Commerce (in a joint publication - *Should Britain Change?*), as well as Political and Economic Planning.

Contrary View

A contrary view was expressed in the August issue of *The Banker* by Mr John Hunsworth, who - although evidently a student of history - appears to be unimpressed by events since 1854. Human history is volatile¹ and discloses a trend toward larger and larger combinations, which is exemplified in a passage in John Gunther's recently published *In Europe Today*:²

'In 1936 . . . Europe consisted of a group of countries roughly equal in strength; in 1961, it is two parallel slabs of territory - one ours, one theirs. . . .' (page 13).

Mr Hunsworth does not appear to recognize that methods appropriate a century ago - when Britannia ruled the waves and a considerable part of the earth's surface - may need changing in conditions which impel the United Kingdom to seek entry into the Common Market. Mr Hunsworth also aired somewhat unusual views on the function of government. In addition to the two choices he allows to government - i.e. inaction directly, or by means of 'yet another Royal Commission' - government, fortunately, has a third choice: to act; and the British Government has indicated its intention of giving a decision regarding a decimal currency this year - which, I believe, will be in the affirmative.

Metric System more Rational

The question of the adoption of a decimal system of currency is part of a larger question - that of the decimalization in general of the British system of weights, measures and currency. The case for the metric system is that, as a means of notation and calculation, decimals are obviously superior to vulgar fractions - for the latter is the essence of the British system. $\$1\frac{1}{2}$ is written $\$1.50$, whereas $\pounds 1\frac{1}{2}$ is written $\pounds 1 \text{ 10s } 0d$. The addition of smaller coins, however, while it does not change the 100 base of the decimal fraction increases the British base from 20 to 240. Hence $\$1.53$ and $\pounds 1 \text{ 10s } 7d$ represent $\$1\frac{53}{100}$ ths and

¹ 'Nothing is; everything is becoming' - Hegel.

² Hamish Hamilton & Co.

£1 $\frac{127}{240}$ ths respectively. Indeed, when fully extended, the British system exhibits a bewildering variety of bases to the relevant vulgar fractions; hence:

Weights: 16ths, 14ths, 28ths, 112ths, 2,240ths, 35,840ths.

Measures: 12ths, 3rds, 36ths, 22nds, 220ths, 1,760ths, 5,280ths, 63,360ths.

Currency: 12ths, 20ths, 240ths.

It is, however, upon entering the realm of calculation that the British system reveals its full quota of horror. Unless she is able to glance at the right sector of the scale-calculator, as its multiplier-finger rests fleetingly on the multiplicand-face, few housewives can check the butcher's calculation as regards 1 lb. 5 $\frac{1}{4}$ oz. of steak at 7s 8d per lb.; and the reason is not far to seek. Housewives able to do the mental calculation $\frac{85}{64} \times \frac{92}{240}$ would not long content themselves with being merely housewives.

The case for giving priority to the decimalization of the currency is that it involves the least change (some, if not all, basic coins can be retained) while producing the largest savings. It is significant that the 1951 Board of Trade Committee on Weights and Measures unanimously recommended the adoption of a decimal system provided, *inter alia*, it was accompanied or preceded by a change to a decimal currency.

Mr Hunsworth dilated at length on the pros and cons of the issue before reaching the conclusion 'case not proven'. The most surprising feature, however, of Mr Hunsworth's article was not so much its length as its omissions. Why did he not put the issue to a professional test by adding up the debits and credits and striking a balance? This omission I will attempt to remedy below:

Credits

- (1) Monetary notation and calculation will be simpler, speedier and more accurate.
- (2) Teaching of arithmetic in schools will be simplified and accelerated; and children will ultimately be spared the horror of vulgar fractions.
- (3) Clerical labour will attain greater productivity.
- (4) Our system of monetary notation and calculation will be brought into conformity with that of the rest of the world.
- (5) Our entry into the Common Market would be facilitated ('talk has already surged ahead towards the idea of a common European currency. . . .'*The Times*, July 25th, 1961).

- (6) British accounting machines will be simplified and their export potential increased.
- (7) Foreign trade will be simplified and expedited; including the tourist trade.

Debits

- (1) The change-over will be expensive.
- (2) It will also be temporarily inconvenient.

Net Balance

A large and increasing credit balance – whose quantification will be examined below.

Costs and Benefits

The main costs of the change relate to the conversion of coin-operated machines and machines designed to calculate in shillings and pence. *Should Britain Change?* estimated these costs at £128 million and Mr Hunsworth (including consequential costs) at some £150 million. The most exhaustive available analysis of savings appears to be that given in the Australian 'Report of the Decimal Currency Committee', 1960. It failed to quantify the total estimated savings but provided much useful data and expressed its view that:

'substantial and important savings would accrue to the country . . . by the adoption of a decimal currency. . . .' (paragraph 64).

Some of the more important data comprised the results of carefully controlled tests of savings on typical office procedures. These savings ranged from 2 per cent to 48 per cent and, although total savings were not quantified, a figure of 20 per cent in relation to the relevant procedures would seem conservative. But 20 per cent of what? That is the critical question.

I have sought in vain to fill in this gap from published information and inquiries from authoritative and other sources in this country. There are significant pointers – but not enough. The 1960 Blue Book on National Income and Expenditure indicated a substantial rise in salaried employees in manufacturing industry¹ during the last decade – from 16 $\frac{1}{2}$ per cent of total employees to 21 $\frac{1}{2}$ per cent. Some of this increase will reflect a welcome improvement in research, development and planning, but figures play an increasing part in management:

"The extreme importance of . . . accountancy (is) . . . that it works in the most nearly universal medium for expression of fact. . . ." – SIR CHARLES REYNOLDS, 1953.

¹ Which currently employs 40 per cent of the working population.

My inquiries indicate that an overall figure for salaried staffs is of the order of 6 million, whereof it is known that the trade unions who purport to organize clerical workers have a 'target' of some 3 million 'white collar workers', of whom my experience indicates that some 40-50 per cent would represent staff engaged primarily on figures. My overall guess is that some 5 per cent of the working population – say, 1.2 million – are mainly concerned with figures, and that some 50 per cent of their work would be reduced by some 20 per cent by the introduction of a decimal coinage. I submit my guess to the informed criticism of your readers with some fortitude, for several reasons. First, I shall seek to demonstrate that the gap between costs and benefits is too large to be closed by errors of estimation; and any error of over-estimation is likely to be balanced by the omission from my figures of the benefits to those who use or are casually engaged on figures.

For comparison with annual savings, the foregoing capital costs of some £150 million should be spread over the estimated lives (say, 15-20 years) of the machines with which it is primarily concerned. Taking the lower figure and allowing for interest gives an annual cost of the order of £16 million – less than 0.1 per cent of the national income. It seems impossible not to believe that such a salutary reform would increase Britain's overall efficiency by more than 0.1 per cent. If my guesses have any validity, the annual savings should be of the order of £80 million¹ – thus recovering the total costs within two years.

In contrast with Mr Hunsworth's misgiving:

'The demand on physical resources . . . in the present over-strained condition of Britain's economy . . . could impose an unwelcome, and perhaps intolerable, additional burden.'

the country's foremost need is to direct production and expenditure into just such capital goods as will restore its competitive efficiency – particularly capital expenditure likely to yield – and quickly – a return of 50 per cent per annum.

A last word on costs – from one of our foremost industrialists. Its relevance is that (as is evident from the comparison herein) the notation of a non-decimal system comprises more digits – and more dots – than 'those damned dots'², Sir Geoffrey Heyworth (now Lord Heyworth) in his inaugural presidential address to the Royal

Statistical Society in 1949, said: 'Every figure which performs no useful function lowers the productivity of one's organization.'

Give History a Shove

Mr Hunsworth adduced all the hoary arguments against the change, and I was able to discern only three new ones – two of which he advanced with considerable reservation. His most ingenious one related to the point that further delay would increase the costs of conversion, which:

'while not to be dismissed, can be over-played; conventional mechanization is yielding to electronic computers. . . .'

I am not unversed in the trend of development of mechanized accounting³ but my mind reels at the prospect of a computer which will encompass:

'cash registers . . . cheque-writers and franking machines . . . stamp machines . . . amusement machines . . . telephone boxes . . . taxi meters and petrol pumps . . .'

to make only a limited selection from the comprehensive list quoted earlier by Mr Hunsworth.

Mr Hunsworth's reservations are even more pronounced in espousing Professor A. C. Aitken's recent advocacy of the duodecimal system. Professor Aitken added little to what Mr Gladstone said regarding duodecimals in 1854 – i.e. that the figure 12 has more devisors than the figure 10. But much has happened since 1854, and it is particularly germane to the present discussion that the facility of dividing the shilling, *inter alia*, by four is no longer essential – history having accomplished that feat more directly than 'the public' for whom the facility was created. It appears, from two charts,⁴ that the current purchasing power of the £ sterling is some 20-25 per cent of its value about a century ago; and only some 2 per cent [*sic*] of its value in the year 1264.

That Mr Hunsworth had an unrewarding search for new sticks with which to beat the 'cranks and enthusiasts' and others who 'without thought' advocate a decimal currency, is exemplified by the one new argument he puts forward unreservedly – a quotation from a 1959 Irish Committee:

'So far as the public is concerned, the existing choice of coinage not only works but works well. . . .'

¹ Derived from Table 2 of the Blue book, assuming that the average pay of clerical workers (including accountants) corresponds to the national average and allowing 40 per cent for overheads (rent, depreciation, interest, etc.).

² Lord Randolph Churchill – 1906.

³ *Vide The Accountant*, July 6th, 1946.

⁴ One published in the *Investors' Chronicle* of December 11th, 1959, and the other in *The Times* of July 25th, 1961.

in assuming the role of *vox populi*, Mr Hunsworth appears content to ignore the fact that a decimal currency has been adopted by the majority of mankind, and rests his case on the habits of less than 0.2 per cent of the world's population.

I will weary your readers no more with a detailed rebuttal of Mr Hunsworth's 'particularly destructive . . . counter-arguments'. But I cannot refrain from comment on his exhortation to educationalists to retain vulgar fractions as a form of mental discipline or on his rhetorical question as to the use to which the saving of time by their abolition might be put. The life of man is short enough not to encumber his mind with inessentials; and Mr Hunsworth's obstinate clinging to our anachronistic systems of weights, measures and currency is evocative of *Hudibras*:

'For he by logarithmic scale
Could take the size of pots of ale
And tell by sines and tangents straight
If bread or butter wanted weight,
And wisely tell what time o' day
The clock doth strike - by algebrae.

- Butler: *Hudibras*.

There remains Mr Hunsworth's final plea, *pace* Gladstone, to conform to the law of inertia. But Gladstone's unusual indulgence was in different circumstances. Not only has the British Empire disappeared but:

'Britain . . . as the leading European state . . . as America's first ally . . . is at an end.' (*The Economist*, July 22nd, 1961.)

Surely we cannot now emulate the calm detachment of Gladstone in 1854. Man is immeasurably the poorer because of two historical time-lags: the first between facts and their cognition; and the second between cognition and action. Although, therefore, on the leisurely British time-scale¹ the 'inevitable' seems about to happen, our future welfare will be conditioned by our ability to give history a shove and thus curtail these wasteful time-lags.

Save the Penny

After careful consideration of the various alternatives, the Council of the Institute recommended the 'ten shilling/cent' basis of conversion. This would leave undisturbed 90 per cent of the form and 98 per cent of the substance of Britain's

existing coinage.² Of the three basic units, the ten shilling note, the shilling and the 'cent', two are already in use and the third would not be far removed in value from the penny - 1 'cent' = 1.2 pence. In comparing the magnitude of difference between the existing penny and the proposed 'cent' - £0.001 - it occurred to me that the inconvenience of introducing a new coin was incommensurate with the change in value. Moreover, we have patiently endured at least seven centuries of inflation, during which the purchasing power of the £ sterling has been whittled away to 2 per cent of its value in 1264. Why, therefore, all the pother at the awful prospect that a moiety of our currency might have a once-for-all appreciation of 20 per cent. It would restore merely a fraction of the devaluation of the previous seven centuries; and at the accelerated current rate of depreciation - 5 per cent per annum - would offset the depreciation of the whole currency for a space of less than three weeks.

It seems to me, therefore, infinitely preferable to make a 20 per cent change in the value of the familiar penny, rather than change it for the unfamiliar 'cent'. We should then wake up one morning to find that we had acquired 'overnight' a new decimal currency based entirely on familiar units - the ten shilling note, the shilling and the penny; the only material change being that the familiar penny had changed from one-twelfth to 0.1 of a shilling or 0.01 of a 'sterling'³ - one of the names suggested by the Institute for the proposed new 10s currency unit.

Problems of the Change

South Africa has recently introduced a decimal currency broadly on the lines recommended by the Institute - the Rand (10s) being divided into 100 cents. And it is precisely this replacement of the familiar penny for the unfamiliar cent that has led to the major difficulties.⁴

Basing the conversion entirely on familiar coinage would substantially ease the problems of the change, including a substantial reduction of

² The total currency in circulation in 1959 was £2,454 million, whereof £51 million - 2 per cent - was represented by sixpences, threepences and 'copper' - *Annual Abstract of Statistics*, 1960.

³ Another argument reflecting our former premier status is loss of prestige by a reduction in 'weight' of our currency unit. But even if it were not possible to avoid devaluation, under existing pressures, the resultant approximate parity of the proposed new 'Sterling' with the 'almighty Dollar' would not seem inapposite.

⁴ See *Decimalization in South Africa*, by C. C. Lundy, F.C.A. (Cape Town), *The Accountant*, June 3rd, 1961.

¹ 170 years elapsed between the decree of Pope Gregory XIII and the adoption in Great Britain of the Gregorian calendar; 175 years have elapsed since the now 'almighty dollar' was decimalized in 1786.

the costs. For example, few coin-operated machines would need substantial alteration – although their output may require adjustment (for which the machines mostly provide facilities). The public would need to accustom itself to tenths in place of twelfths and those machines with 12 and 20 sectors would require modification. There would remain the problem of adjusting rates and prices of wages, services and low-priced consumables. But, as indicated by the Institute, these are capable of settlement without undue difficulty. The problems associated with the change in value of the penny may be briefly summarized as follows:

- (1) between the announcement of the intended change and its implementation there would be a tendency to hoard pennies (including three-pences and sixpences);
- (2) without a corresponding adjustment of rates, prices, etc.:
 - (a) the cost of items selling for less than 11d would be effectively increased by 20 per cent (with lower relative increases at higher prices, until at 19s 10d (old notation) the effective increase would be less than 1 per cent;
 - (b) contract conditions would be varied to the possible disadvantage of some of the parties thereto;
 - (c) wage rates would be effectively increased;
 - (d) profits of suppliers of low-priced consumables and services would be increased.

The first of the foregoing objections is unavoidable.¹ But the Bank of England holds substantial coin balances and, with adequate notice, additional coins could be minted – particularly new denominations which may be desirable (e.g. 2½d and 5d pieces to replace, eventually, 3d and 6d ones) the latter remaining as ‘pennies’ – not quarters or halves of a shilling.

The inflationary aspect of the change appears to be the more serious one. It seems that approximately 15 per cent of consumers’ expenditure is on items priced wholly or mainly in pence (e.g. newspapers, bread, milk, eggs, potatoes, postage, gas and electricity and travel). If the effective cost of these items were increased by 20 per cent, the result would be a 3 per cent rise in the cost of living – which the public would hardly tolerate. (Indeed, were some modern Socrates to seek to convince the public that such toleration were commendable as a means of a present necessary

restraint on consumers’ expenditure, he would doubtless suffer no better fate than did Socrates himself.)

Normal Processes of Adjustment

It is, however, significant that the major part of such expenditure (approximately 75 per cent) e.g. on milk, eggs, services, is already subject to some form of price control. So that, given sufficient time, the normal processes of adjustment of prices would take effect in those cases. For the remainder, one cannot overlook the effect of the normal economic pressures. A newspaper, which three-quarters of a century ago sold for ½d, now sells for 3d. The reason it is not now priced at 3½d is the belief of the proprietors – based on market appraisal – that greater profitability is attainable at 3d. If, therefore, by Government decree the effective price be increased to 3·6d, then either the price would be reduced or the conclusion reached that the previous appraisal was inaccurate. In that event, the price increase would represent one which in the course of events the owners would make, quite apart from having it thrust upon them by Government decree. Moreover – and this is the critical defect of prescribing a downward adjustment of prices of normally uncontrolled items on a change of currency – what (apart from economic pressures) is to prevent such prices, having been so reduced, being again increased? There would doubtless be some marginal ‘profiteering’ as a result of the change, but this should be minimal (owing to economic pressures) discounted by some 50 per cent by the Inland Revenue and in result not unduly serious in relation to the issues at stake.²

In all but few cases, wage rates and existing contracts and obligations would give little trouble. The penny content in settling obligations would not normally be significant and its automatic adjustment not worth while. For example, the change on amounts exceeding £1 would be less than 1 per cent – £10: 0·1 per cent, £100: 0·01 per cent, and so on.

The problem of weekly wages is also minimal, as the change is likely to be less than 0·1 per cent (see above). In relation to hourly wages, the change might be of the order of 2–3 per cent and worthy of consideration. But a change in the value of money is only one of many factors affecting wages rates; and I can think of nothing

¹ Ironically, in South Africa, the introduction of the unfamiliar cent led to some hoarding of the new currency (see C. C. Lundy, *op. cit.*).

² The attempt at compulsory conversion of pennies into cents in South Africa has not avoided marginal profiteering (see C. C. Lundy, *op. cit.*).

more likely to outrage employees (after their experience of inflation) than if their wages were automatically adjusted downward for a once-for-all appreciation of the penny. Large contracts expressed in small units would require reconsideration – e.g. cotton contracts (usually expressed in pence per pound of weight) and share options.

It would, however, in my opinion, create chaos if some 'magic formula' were prescribed by legislation deemed capable of fairly adjusting all prices, wages, contracts and obligations. Life is too many-sided to attain fairness by simple formulae. Such a course would, in my view, by cutting across normal methods of adjustment, lead to the maximum dislocation without attaining the fairness it seeks.

Convenience and Fairness

On making the change, the Government should indicate the desirability of making appropriate adjustments by normal methods, publishing conversion tables – e.g. 1 new penny = 1.2 old pence. These adjustments should then generally be left to the discretion of the persons and organizations affected. For example, the stock exchange would no doubt prescribe for the adjustment of share options and the Royal Exchange, Manchester, for cotton contracts. There should, however, be granted by law an option to any party to a contract – entered into

before and implemented after prescribed dates – to seek an appropriate adjustment, if he wishes, where the contract is materially affected by the change in currency. Failing agreement between the parties, special Courts should be charged with the adjustment of such contracts. Given that the public is properly advised of the issues – to enable their fund of common sense to be applied to the solution of these problems – there would, in my view, be little recourse to the Courts. In such a way it would be possible to make the change with the minimum of inconvenience and the maximum attainable fairness.

The Prime Minister, in his recent broadcast, drew attention to the critical state of our affairs – history is being made by us and around us at an increasing pace. The proposed entry of Britain into the Common Market is a salutary reminder that old habits, old relations must be exchanged for new. Like a good housewife impelled (by flitting into a new house) to clear out the attic, let us – without more ado – relegate to the limbo of history our outmoded systems of weights, measures and currency. Let us equip ourselves with an essential tool for survival in the late twentieth century – a rational metric system which will save our blushes when we set up common housekeeping with our European neighbours.

But whatsoever hath a blemish, that ye shall not offer; for it shall not be acceptable for you. – Leviticus XXII, 20.

Proof of Debts in Winding-up

RECENT AUTHORITIES CONSIDERED

CONTRIBUTED

RULE 107 of the Companies (Winding-up) Rules, 1949, makes it the duty of the liquidator of a company to examine every proof of debt lodged with him and the ground of the debt; and in writing to admit or reject it in whole or in part, or to require further evidence in support of it. If he rejects a proof, the liquidator has to state in writing to the creditor the grounds of the rejection. He cannot require a claimant for damages for wrongful dismissal to pursue his claim by way of proof, as he is entitled to elect to proceed by action and the Court shall not interfere except for good reason, such as the saving of expense (*Cook v. 'X' Chair Patents Co Ltd* ([1959] 3 All E.R. 906)).

Rule 108 provides a dissatisfied creditor or contributory with a remedy against the liquidator by way of application for reversal or variation of the liquidator's decision. On such an application, the Court approaches the whole question *de novo* and determines to what extent the creditor or contributory shall be allowed to rank as a proving creditor (*Re Kentwood Construction Ltd* ([1960] 2 All E.R. 655)). In this case, a firm of chartered accountants claimed to be creditors of the company in liquidation for the sum of £525 in respect of professional services to the company during 1958–59. Proof for such an amount was rejected by the liquidator, and the Registrar upheld his decision by an order

dated February 24th, 1960. Accordingly the accountants sought the discharge of the Registrar's order and asked that their proof be ordered in full. Their appeal was heard by Buckley, J., who reviewed the evidence and found that £525 was a fair and reasonable fee for the work done. The learned judge observed:

'It was not merely the function of the Court to say that a decision was right or wrong; it might vary the decision in any way that it thought necessary in the light of the evidence before the Court.'

Contingent Claims

Where there is a contingent claim, the Court may set aside the decision of the liquidator to admit proof of debt either in whole or in part or remit the case to the Companies Court in order that the question at issue between the parties may be decided (*Re Trepca Mines Ltd* ([1960] 3 All E.R. 304)). This was an appeal from Roxburgh, J. (interlocutory judgment), who rejected an application to reverse the decision of the company's liquidator in not admitting proof of a debt which was contingent on prospect of success in foreign proceedings for approximately £2½ million. The appeal was allowed on the grounds that the judge below erred in law in rejecting the applicant's proof whereby he was deflected from his task of assessing the claim. The case was therefore remitted to the Companies Court for the value of the claim to be ascertained.

As to what would be the form of proof by a trustee in the case of arrears under a lease of railway rolling stock, it was held by the House of Lords that the trustee could prove in respect of unfulfilled obligations of the railway company under the lease and not for sums appropriate to trust certificate holders (*Re United Railways of the Havana & Regla Warehouses Ltd* ([1960] 2 All E.R. 332)).

Question of Preferential Payment

A difficult problem arose in an appeal by the Midland Bank Ltd against a liquidator, in *Re E. J. Morel (1934) Ltd* ([1961] 1 All E.R. 796). The problem concerned the extent to which a debt ought to be treated as preferential under Section 319 (4) of the Companies Act, 1948, if it related to moneys advanced for the purpose of paying wages. The company, which went into compulsory liquidation in June 1958, had at that date three accounts with the bank, the state of its accounts then being as follows:

No. 1 account in debit for £1,839.

No. 2 account in credit to a sum of either £1,292 10s 11d or £1,544 12s 4d.

Wages account in debit of either £1,371 10s 6d or £1,623 11s 11d.

The alternative figures in the accounts were not matters which affected the decision. A proof was lodged by the bank for £1,917 19s 7d as follows:

No. 1 account, debit £1,839.

Deduct No. 2 account credit £1,544 12s 4d,
giving balance of £294 7s 8d.

Add Wages account debit £1,623 11s 11d,
making a total of the amount for which proved.

A note in the proof stated: 'We claim as preferential part of that sum, viz. £910 14s 6d representing advances made for the purpose of wages.'

The liquidator rejected so much of the proof of £910 14s 6d as a preferential payment on the grounds that the bank was not entitled to combine the three accounts, and that although this sum represented the net aggregate total of the amounts which during the four months preceding the winding-up were paid to employees for wages and holiday remuneration which, if not paid, would have been preferential debts in the winding-up derived from moneys drawn for the company's wages account, yet this sum could not be claimed by the bank as preferential as having been advanced by the bank to the company and not repaid until the bank had applied in satisfaction of the true debit balance on the wages account, the true credit balance on No. 2 account, and on such application a debit balance of £78 19s 7d would remain on the wages account, which the liquidator was willing to admit as preferential. Buckley, J., approached the solution of the problem on the basis that the accounts were of different character and that the bank was not free to combine them in this way.

Statute of Limitation

The question whether simple debts would be barred after lapse of time arose in *Re Footman Bower & Co Ltd* ([1961] 2 All E.R. 161). In this case, a balance on current account for goods supplied was rejected by the liquidator as statute-barred. The liquidator admitted proof of £80 2s 9d and rejected the balance of £515 7s 1d. It was shown that between March and July 1953 there were six payments each of £50 on account, which was payment on account of the whole balance outstanding at the date of the payment, and therefore the Court construed these payments 'in respect of' that balance for the purpose of Section 23 (4) of the Limitation Act, 1939.

Services to the Private Company and its Members – II

by A. B. SNOW, F.C.A.

Part III

THE FORWARD LOOK – BUDGETS AND FORECASTS

THE service which the private company, and especially the small private company, most urgently needs from the practising accountant is expert advice and assistance in the day-to-day and month-to-month management of its financial affairs.

31. The public company has its financial director, its comptroller, its chief accountant, and perhaps a veritable army of accountancy staff, who can provide the most expert assistance in advising the board as to how to use the company's capital to the best advantage, how much the current year's turnover is expected to be, how much profit will accrue from the turnover, how much finance will be required from the bank, and over what period, and at what point surplus funds will require investment. More importantly, they will inform the board at each month-end whether the month's transactions have been in conformity with those forecasts, or whether they have been 5 per cent up or 5 per cent down, and why.

32. In all but the most exceptional case, the smaller private company cannot provide services of that nature for itself. It is dependent on its annual accounts, which (let us face the fact) are often many months in arrear, when the lessons which can be learned from them are too late to be of any value for the current year. In the case of the larger private company which can afford to employ a qualified accountant, that official is often so very much immersed in other work that he has no time to provide services of that nature, or (let us face the fact) he may have left the practising side of the profession long before his knowledge and ability had had time to mature, and he is quite unable to provide them. In such a case, the 'resident' accountant's contribution is often confined merely to the preparation of monthly accounts and balance sheets, the usefulness of which is limited because they are not related to any predetermined financial plan.

33. In relation to the great majority of private companies, therefore, the practising accountant has a wide scope for the extension of his services beyond the field of historical accounting into the field of 'forward accounting'. In that capacity he becomes more than ever the indispensable adviser, fully in

touch with the company's plans, needing no lengthy briefing when his advice is sought at short notice.

34. As to the form which those 'forward' services should take, much will depend on the nature of the company's business. A small retail store, for example, presents no major problems. Its monthly turnover can be estimated for twelve months ahead, its annual wages and salaries bill can be estimated, as can also its annual overhead expenses. Unless there is expected to be any change in the gross profit ratio (in which case the appropriate adjustment can be provided for), it can be assumed that each month's sales will have earned the same ratio of gross profit as was shown by the previous year's accounts – and on the basis of those estimates an advance trading account for the year can be built up, subdivided into twelve separate trading accounts – one for each month of the year.

35. The comparison of the actual results for each month with the estimate for that month becomes a relatively simple matter, as the following statement shows:

MONTH OF MAY 1961				Surplus (Deficit)	Surplus (Deficit)
	Forecast	Actual		for month	to date
	£	£		£	£
SALES	4,000	4,212		212	463
GROSS PROFIT (30 per cent)	1,200	1,264		64	139
DISCOUNTS RECEIVED ..	70	68		(2)	13
	<u>£1,270</u>	<u>£1,332</u>		<u>£62</u>	<u>£152</u>
WEEKLY WAGES (4 weeks plus 1/3rd of the last week) or (5 weeks less 2/3rds of the last week)	200	215		15	29
MONTHLY SALARIES ..	105	105		—	—
EXPENSES (One-twelfth of estimated annual total)	480	480		—	—
EXCEPTIONAL EXPENSES ..	—	27		27	27
PROFIT	<u>£485</u>	<u>£505</u>		<u>£20</u>	<u>£96</u>

Surplus Surplus

36. For the manufacturing company, however, the matter is not so simple. It is impossible to prepare accurate monthly trading accounts and balance sheets unless account is taken of fluctuations in stocks and work in progress, and in the great majority of cases it is not practicable to value those items without considerable inconvenience and expense.

37. What is required by such a private company, therefore, is a system of accounting control which:

- (a) will keep the directors in close touch with the company's financial affairs, irrespective of whether or not they are particularly skilled in financial matters;
- (b) will keep them informed from month to month as to whether or not the company is achieving its targets;
- (c) will not involve the company in any exorbitant expense;
- (d) will not necessitate the engagement of any additional staff;
- (e) will not cause any inconvenience in the office or factory.

38. On the face of it, that sounds a tall order – but the practising accountant can make, and in a growing number of cases is making, a very powerful contribution.

39. We have all poured scorn on the thought of the business man of former times who claimed that he could tell where he was going by keeping an eye on his bank pass-book. The truth of the matter is that he probably could – but business has grown far more complex since his day, and it would not be so easy to do it now. Nevertheless, if each class of receipt and payment in that bank pass-book were to be the subject of a considered estimate for each month of the year ahead, and those estimates were capable of being integrated into an overall plan which would result in the achievement of a predetermined amount of profit and a predetermined financial position at the year-end, and it were arranged that at the end of each month in that year the actual transactions could be measured against the estimates, then the bank pass-book could indeed become a very significant ally.

40. This object can be achieved by preparing a trading and profit and loss account budget based on considered estimates for the year ahead, together with a *pro forma* balance sheet based on that budget, and by translating the figures of those budgets into terms of cash receipts and payments. Those cash receipts and payments are then made up into the form of a cash forecast for each month of the year – and a simple analysis of the cash-book at each month-end thereafter will provide a basis for the measurement of the actual against the estimate.

41. The accountant's contribution to this is three-fold. Firstly, he will assist the directors to make up their estimates. He will weigh those estimates one against the other, he will see whether they make sense, and being satisfied on that score he will attend to the mechanics of the operation – and in due course will present the directors with the results, in the form of a revenue budget, a *pro forma* balance sheet showing the financial position which will result if that budget is exactly achieved, and a cash forecast for the year broken down into a forecast for each month of the year. He will explain these to the directors and find whether in their opinion they make sense, he will warn them of any points in the year at which the bank account will run into overdraft or at which the present overdraft will exceed its limit,

and if in fact his figures show that the bank overdraft will at some point be strained far beyond its limit, he will help them to adjust the estimates accordingly.

42. Secondly, he (or a member of his staff) will attend at the company's office at or within a few days of each month-end, and will prepare an analysis of the cash-book transactions under the respective headings of the cash forecast, together with a comparative statement showing the differences between the forecast and the actual.

43. Thirdly, he will meet the directors with this comparative statement and join with them in holding an inquest on the month's transactions.

44. To consider this in more detail, let us turn again to the Oxcourse Manufacturing Co Ltd. At the conclusion of their meeting on the accounts, the directors undertook to consider their probable sales, wages and materials costs, and expenses, for the current year, and at a subsequent meeting they informed their accountant that they had arrived at the following estimates:

- (a) that the net sales, after discounts and allowances, would amount to £170,000;
- (b) that due to wage increases and rising materials costs, and the inability of the company to pass all these increased costs on to their customers, the ratio of profit on prime cost would fall somewhat from its 1960–61 figure of 37·0 per cent;
- (c) that the abnormal stock increase of 1960–61 was unavoidable, that it is not possible to reduce the present stockpile, and that it would increase still further, by reason of the increased turnover, to the extent of a further £1,500 during this year;
- (d) that the work in progress would increase by a further £2,000;
- (e) that the cost of materials used would be increased in direct proportion to the increased sales, plus an overall 3 per cent for increased buying prices;
- (f) that owing to a certain amount of dilution by unskilled labour the direct wages would not necessarily increase *pro rata* to the increased sales (13·6 per cent), but that the increased sales and the annual wage increases which were pending would together have the result of increasing the 1960–61 direct wages cost by an overall 15 per cent;
- (g) that the manufacturing and trading expenses would increase, detailed estimates being given.

From those estimates the preparation of a cash forecast, trading budget, and balance sheet budget would proceed as follows:

(A) Sales

45. The net sales, after discounts, are estimated at £170,000. We have seen in paragraph (21) (v), that 50 per cent of the sales of each month are paid for in the following month, 30 per cent in the next

OXCOURSE MANUFACTURING CO LTD
FORECAST MONTHLY SALES AND CASH COLLECTIONS
Year ending March 31st, 1962

Appendix E

1961			Sales									
			£						£			
January	(i)	14,220	(owing at March 31st, 1961 (20 per cent))		..	2,844			..	2,844		
February	(ii)	13,217	(" " (50 " "))		..	6,608			..	6,608		
March	(iii)	14,450	(" " (100 " "))		..	14,450			..	14,450		
										(per balance sheet)	<u>£23,902</u>	

		MONTHLY CASH COLLECTIONS					Cash Discount (on 50 per cent)	Provision for Bad Debts	Net Collections	
		Monthly Sales	50 per cent	30 per cent	20 per cent	Total	Net	Net	Net	
		£	£	£	£	£	£	£	£	
1961 April	..	(a) 14,500	(iii) 7,225	(ii) 3,965	(i) 2,844	14,034	180	13,854	50	13,804
May	..	(b) 14,500	(a) 7,250	(iii) 4,335	(ii) 2,643	14,228	181	14,047	50	13,997
June	..	(c) 14,700	(b) 7,250	(a) 4,350	(iii) 2,890	14,490	181	14,309	50	14,259
July	..	(d) 15,000	(c) 7,350	(b) 4,350	(a) 2,900	14,600	183	14,417	50	14,367
August	..	(e) 7,500	(d) 7,500	(c) 4,410	(b) 2,900	14,810	187	14,623	50	14,573
September	..	(f) 15,000	(e) 7,500	(d) 4,500	(c) 2,940	11,190	93	11,097	50	11,047
October	..	(g) 15,000	(f) 7,500	(e) 2,250	(d) 3,000	12,750	188	12,562	50	12,512
November	..	(h) 15,100	(g) 7,500	(f) 4,500	(e) 1,500	13,500	188	13,312	50	13,262
December	..	(i) 15,000	(h) 7,550	(g) 4,500	(f) 3,000	15,050	189	14,861	50	14,811
1962 January	..	(j) 15,200	(i) 7,500	(h) 4,530	(g) 3,000	15,030	188	14,842	50	14,792
February	..	(k) 15,000	(j) 7,600	(i) 4,500	(h) 3,020	15,120	190	14,930	50	14,880
March	..	(l) 15,650	(k) 7,500	(j) 4,560	(i) 3,000	15,060	188	14,872	50	14,822
		£172,150	£85,475	£50,750	£33,637	£169,862	£2,136	£167,726	£600	£167,126

month, and 20 per cent in the month after that. Only 50 per cent of each month's sales will thus qualify for the cash discount (2½ per cent), and we can therefore say that the discounts will be approximately 2½ per cent of 50 per cent of £170,000 = £2,125. The total annual sales, after returns and allowances, but before cash discounts, will therefore be, say, £172,150.

46. The sales daybook shows that the sales in the closing months of 1960-61 were January £14,220, February £13,217, and March £14,450. It is anticipated that the sales in the early months of 1961-62 will continue at that level, with a cumulative increase from July 1961 onwards.

47. From those basic facts it is possible to build up a statement of estimated monthly sales and anticipated monthly collections from customers. The only further matter which requires to be taken into account is any necessary provision for bad debts. It is impossible to allocate such a provision into certain months rather than others, and it is therefore expedient to spread the annual provision over the twelve months of the year in equal proportions. It is estimated in this case that the loss from bad debts in the year ended March 31st, 1962, will be £600, and this can be provided for by a deduction of £50 from the anticipated cash collections of each month.

48. The detailed workings are reproduced at Appendix E. These figures provide us with the monthly and annual sales, the net cash collections which should accrue from those sales, and the annual cost of the cash discounts and bad debts.

It also provides the closing debtors for the balance sheet at March 31st, 1962, viz.:

Opening debtors	..	..	..	£	23,902
Sales	..	..	..	£	172,150
					196,052
Less Cash received	..	..	..	£	167,126
Discounts	..	..	..	£	2,136
					169,262
					26,790
Less Provision for bad debts	..	..	..	£	600
					£26,190

Those net debtors at March 31st, 1962, are made up of:

January sales	(£15,200) - 20 per cent	..	£	3,040
February sales	(£15,000) - 50 per cent	..	£	7,500
March sales	(£15,650) - 100 per cent	..	£	15,650
				£26,190

(B) Wages

49. The wages figures of 1960-61 require to be increased by 15 per cent. The wages figures for 1961-62 (along with the National Insurance stamps, which are paid at the same time as the wages) can therefore be estimated as follows:

		1960-61	15 per cent	Say 1961-62
		£	£	£
Direct	..	56,176	8,427	64,603
Miscellaneous	..	1,514	226	1,740
National Insurance	..	1,888	283	2,171
				£68,500

The wages are paid on the Friday of each week, and this total sum of £68,500 requires to be apportioned over the twelve months of the year, having regard firstly to the number of Fridays in the month, and secondly to the pattern of the increase relative to the increase in the production and turnover. On that basis the monthly wage payments are forecast to be:

					£
April	(4 weeks)	..	..	..	5,310
May	(4 "	..	..	..	5,310
June	(5 "	..	..	..	6,750
July	(4 "	..	..	..	5,460
August	(2 "	..	..	..	2,860
September	(5 "	..	..	..	6,800
October	(4 "	..	..	..	5,510
November	(4 "	..	..	..	5,510
December	(5 "	..	..	..	6,850
January	(4 "	..	..	..	5,560
February	(4 "	..	..	..	5,560
March	(5 "	..	..	..	7,020
					<u>£68,500</u>

(C) Salaries

50. The salaries paid in 1960-61 were £4,320 for the works staff and £2,171 for the office staff. Salary increases for 1961-62 have already been given, and subject to any staff changes the salaries payable in 1961-62 will be £4,600 and £2,300 respectively - a total of £6,900, which will be paid in twelve monthly payments of £575 each.

(D) Directors' salaries

51. The monthly salary drawings of the three directors will be at the rate of £1,000 per annum for Mr B. C. Oxcourse, £2,000 per annum for Mr A. D. Oxcourse, and £1,150 per annum for Mr B. B. Camcourse. Those drawings amount to £4,150 per annum, or £346 per month. P.A.Y.E. on the undrawn salaries for 1960-61 became payable in April 1961, and amounted to £140 for Mr A. D. Oxcourse and £80 for Mr B. B. Camcourse. Mr B. C. Oxcourse paid his P.A.Y.E. liability privately.

(E) Specific expenses

52. Expenses of significant amount which are payable only once or at stated intervals during the year should be dealt with separately in the cash forecast, and in that connection the following expenses of the Oxcourse Company receive that special treatment:

	Estimated		
	1960-61	1961-62	Payable
	£	£	
Rates	754	790	May-November
Holiday pay ..	2,104	2,400	July
Telephone ..	396	440	July-January
Insurances-W.C.A.	93	100	April
Others	337	330	April
Bank charges ..	73	80	June-December
Accountancy charges	450	450	September
Loan interest ..	306 (net)	306	September-March

(F) Materials and other expenses

53. The payments for materials used in production, and for expenses other than those which have been singled out for special treatment, will be dealt with through the bought ledger and it is convenient to deal with them together.

The materials cost can be estimated as follows:

	£
Cost in 1960-61	40,272
Add 13.6 per cent for increased turnover ..	5,477
	<u>45,749</u>
Add 3 per cent for increased prices	1,372
	<u>47,121</u>
say £47,200	
Add For estimated increase in stock at March 31st, 1962	1,500
	<u>48,700</u>
Consumables (£1,179 in 1960-61), say ..	1,300
	<u>£50,000</u>

54. The expenses (other than those already dealt with) are estimated at:

	1960-61	1961-62
	£	£
Fuel and power (paid monthly) ..	5,732	7,000
Cleaning	525	570
Repairs (factory)	2,537	2,800
Repairs (plant)	3,050	3,300
Collection, packing, etc.	2,632	3,100
Stationery	441	570
Postage	114	130
Agents' commission	2,421	3,000
Advertising	559	1,250
Travelling	893	1,250
Motor-car expenses	932	1,100
Subscriptions	73	80
Incidentals	572	700
Professional charges	140	150
	<u>£20,621</u>	<u>£25,000</u>

This means that payments totalling £50,000 for materials and £25,000 for expenses will be dealt with through the bought ledger.

55. An analysis of the sundry creditors at March 31st, 1961 (£13,264), shows that they consisted of bought ledger balances £11,000 and accruals (holiday pay, rates, telephone, accountancy charges, etc.) £2,264. Examination of the bought ledger balances shows that they represented the whole of the invoices rendered for February (£5,100) and March (£5,900) - and that there is a consistent pattern of the balances being two months in arrear.

56. On the basis that that pattern will be continued throughout 1961-62, and after making provision for the increased expenditure which will

accrue during that year, the bought ledger payments during 1961-62 are estimated to be as follows:

	For Materials	For Expenses	Total	
April ..	3,400	1,700	5,100	1961 Cr.
May ..	4,000	1,900	5,900	(")
June ..	4,000	2,000	6,000	
July ..	4,000	2,000	6,000	
August ..	4,100	2,100	6,200	
September	4,400	2,100	6,500	
October ..	2,600	1,900	4,500	
November	4,400	2,100	6,500	
December ..	4,600	2,300	6,900	
January ..	4,300	2,100	6,400	
February ..	4,400	2,100	6,500	
March ..	4,400	2,100	6,500	
	<u>£48,600</u>	<u>£24,400</u>	<u>£73,000</u>	

57. For the purposes of the *pro forma* balance sheet at March 31st, 1962, the notional bought ledger control account can be built in this way:

	Materials £	Expenses £	Total £
Balance - March 31st, 1961	7,400	3,600	11,000
Purchases	50,000	25,000	75,000
	<u>57,400</u>	<u>28,600</u>	<u>86,000</u>
Cash payments	48,600	24,400	73,000
Balance - March 31st, 1962	<u>£8,800</u>	<u>£4,200</u>	<u>£13,000</u>

It may be that certain expenses payments are made otherwise than through the bought ledger (e.g. private ledger payments and payments to the petty cash account) but for all the purposes of the cash forecast and its monthly reconciliation they can be merged with the bought ledger payments.

(G) Hire-purchase instalments

58. It is not anticipated that any further motor vehicles or other fixed assets will be acquired on hire-purchase terms during 1961-62, and the provision required in the cash forecast will be for the monthly instalments of £96 on those contracts existing at March 31st, 1961 - each instalment consisting of £83 principal and £13 interest.

(H) Capital expenditure

59. In view of the tightness of the liquid position it is intended to keep capital expenditure down to its minimum, the essential purchases being estimated to require payments of £1,000 in June, £250 in September, £750 in December, and £500 in January 1962 - all for plant and machinery.

(I) Taxation payments

60. The payments in settlement of taxation liabilities can be arrived at from the balances making

up the taxation reserves at March 31st, 1961, viz.:

	March 31st 1961 £	Payable
Profits tax 1960 - balance ..	91	April 1961
Profits tax 1961	900	December 1961
Schedule D, 1961-62	2,900	February 1962
Surplus reserve .. ..	.79	—
	<u>£3,970</u>	

(J) Dividend

61. The dividend for the year to March 31st, 1961 (£613 net), is expected to be paid in September 1961.

(K) Bank interest

62. This is computed from the cash forecast itself, when the average forecast overdraft for each half-year has been ascertained.

(L) Expense accruals

63. It is estimated that the expense accruals at March 31st, 1962, will have increased by £120 for holiday pay, £100 for agents' commission, £10 for rates, and £10 for telephone - a total increase of £240.

Cash forecast

64. From the foregoing information a cash forecast can be built up in the form which is reproduced at Appendix F.

This forecast shows that at three points in the year (December 1961, and February and March 1962), the bank overdraft will exceed its limit of £8,000 - at its highest point by £245. This has obviously been caused firstly by the capital expenditure payments in December and January, and secondly by the payment of the 1961 profits tax liability in December, and the 1961-62 Schedule D income tax liability in February. The pattern of the previous months offers every reason to suppose that these excesses will only be temporary, but prudence dictates that the bank should be provided forthwith with a copy of the forecast and asked to sanction an additional advance of £1,000 or so during the period from December 1961 to April or May 1962. In this particular connection, it can be appreciated that the cash forecast is a most helpful document to the company's bankers, as they accept it not only in support of any application for an increased overdraft, but, more importantly, as an indication that the company is adopting a responsible attitude towards its financial affairs.

65. If the forecast at any month-end had shown any very considerable increase in the overdraft, or if the bank for any reason declined to sanction the modest increases which are at present shown, it would be necessary to trim the payments accordingly - by cutting expenses, by reducing the capital expenditure estimates, or by limiting the expansion programme.

Appendix F

OXCOURSE MANUFACTURING CO LTD

CASH FORECAST - YEAR TO MARCH 31ST, 1962

		1961												1962					
Paragraph		APRIL	MAY	JUNE	JULY	AUGUST	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MARCH	TOTAL					
RECEIPTS		£.	£.	£.	£.	£.	£.	£.	£.	£.	£.	£.	£.	£.	£.				
Sales ledger collections	..	13,804	13,997	14,259	14,367	14,573	11,047	12,512	13,262	14,811	14,792	14,880	14,822	167,126					
		£13,804	£13,997	£14,259	£14,367	£14,573	£11,047	£12,512	£13,262	£14,811	£14,792	£14,880	£14,822	£167,126					
PAYMENTS																			
Wages ..	..	5,310	5,310	6,750	5,460	2,860	6,800	5,510	5,510	6,850	5,560	5,560	7,020	68,500				
Staff salaries ..	..	575	575	575	575	575	575	575	575	575	575	575	575	6,900				
Directors' salaries ..	..	346	346	346	346	346	346	346	346	346	346	345	345	4,150				
P.A.Y.E. on undrawn salaries	..	220	—	—	—	—	—	—	—	—	—	—	—	220					
Bought ledger payments:																			
Materials ..	..	3,400	4,000	4,000	4,000	4,100	4,400	2,600	4,400	4,600	4,300	4,400	4,400	48,600				
Expenses ..	..	1,700	1,900	2,000	2,000	2,100	2,100	1,900	2,100	2,300	2,100	2,100	2,100	24,400				
Rates ..	..	—	395	—	—	—	—	—	395	—	—	—	—	790				
Telephone ..	..	—	—	—	220	—	—	—	—	—	220	—	—	440				
Insurances ..	..	—	—	—	—	—	—	—	—	—	—	—	—	430				
Holiday pay ..	..	—	—	—	2,400	—	—	—	—	—	—	—	—	2,400				
Accountancy charges	..	—	—	—	—	—	450	—	—	—	—	—	—	450					
Loan interest ..	..	—	—	—	—	—	153	—	—	—	—	—	153	306				
Hire-purchase payments	..	96	96	96	96	96	96	96	96	96	96	96	96	1,152					
Capital expenditure ..	..	—	—	1,000	—	—	250	—	—	750	500	—	—	2,500				
Taxation payments ..	..	—	—	—	—	—	—	—	—	900	87	2,900	—	3,978				
Dividend ..	..	91	—	—	—	—	613	—	—	—	—	—	—	613				
Bank charges ..	..	—	—	40	—	—	—	—	—	40	—	—	—	80				
Bank interest ..	..	—	—	220	—	—	—	—	—	185	—	—	—	405				
		£12,168	£12,622	£15,027	£15,097	£10,077	£15,783	£11,027	£13,422	£16,642	£13,784	£15,976	£14,689	£166,314					

OVERDRAFT AT END OF MONTH .. £7,288

(£8,924 at March 31st, 1961) .. 5,013

2,915

7,651

6,166

8,157

8,245

7,149

8,112

Appendix G

OXCOURSE MANUFACTURING CO LTD

TRADING BUDGET

Year ending March 31st, 1962

Work in progress 1961	£ 12,322	Sales (A)	£ 172,150
Materials bought 48,700 .. (F)		Less Discounts .. (A)	2,136
Less Increase in stock 1,500			<u>170,014</u>
	47,200		
Direct wages .. (B)	64,650		
	<u>124,172</u>		
Less Work in progress 1962 (increase of £2,000) ..	14,322		
	<u>109,850</u>		
Profit on prime cost (35.4 per cent)	60,164		
	<u>£170,014</u>		<u>£170,014</u>
Works salaries .. (C)	£ 4,600	Profit, brought down ..	£ 60,164
Miscellaneous labour .. (B)	1,750		
Miscellaneous materials .. (F)	1,300		
Rates (£790 (E) + £10 .. (L))	800		
Fuel and power .. (F)	7,000		
Cleaning .. (F)	570		
Factory repairs .. (F)	2,800		
Plant repairs .. (F)	3,300		
National Insurance (B)	2,100		
Holiday pay (£2,400 (E) + £120 (L)) ..	2,520		
Workmen's compensation insurance .. (E)	100		
Collection, packing, etc. .. (F)	3,100		
	<u>29,940</u>		
Manufacturing profit (17.8 per cent)	30,224		
	<u>£60,164</u>		<u>£60,164</u>
Office salaries .. (C)	£ 2,300	Profit, brought down ..	£ 30,224
Stationery .. (F)	570		
Postages .. (F)	130		
Telephone (£440 (E) + £10 (L))	450		
Agents' commission (3,000 (F) + £100 (L))	3,100		
Advertising .. (F)	1,250		
Travelling .. (F)	1,250		
Motor-car expenses .. (F)	1,100		
Insurance .. (E)	330		
Subscriptions .. (F)	80		
Incidentals .. (F)	700		
Bank charges .. (E)	80		
Professional charges .. (F)	150		
Accountancy charges .. (E)	450		
Bad debts provision	600		
	<u>12,540</u>		
Trading profit (10.4 per cent)	17,684		
	<u>£30,224</u>		<u>£30,224</u>

Trading and profit budget

66. The figures of the cash forecast can now be used in the preparation of the trading and profit budget which is reproduced at Appendix G.

67. This budget is drawn up in a form similar to that adopted for the annual accounts, and is based on the estimates of sales, wages and materials costs, and expenses. It shows a profit on prime cost of 35.4 per cent compared with 37.0 per cent for the year 1960-61, a manufacturing profit of 17.8 per cent compared with 19.4 per cent, and a trading profit of 10.4 per cent compared with 12.5 per cent. It follows the pattern of increasing turnover and decreasing profitability shown by the 1960-61 accounts, and which the directors took into account in their 1961-62 estimates, and to that extent it makes sense – and implies a modest conservatism rather than any unduly rosy optimism.

68. The profit and loss account budget at Appendix H takes account of the anticipated interest payments and the directors' salaries for the year and provides for the anticipated depreciation provision on the fixed assets. Provision has also been made for the estimated taxation liability on the budgeted profit, and the anticipated net profit for the year thus emerges.

Pro forma balance sheet

69. The *pro forma* balance sheet at Appendix I proceeds from the profit and loss account to draw together all the remaining figures, and thus shows the financial position as it will be at March 31st, 1962, if the budget programme is exactly achieved (and if the rates of taxation remain unchanged).

This completes the budget, and all is ready to await each month-end and then to see how each month has fared by comparison with the forecast.

Control by cash forecast

70. The reconciliation with the cash forecast for a specimen month (June 1961) is reproduced at Appendix J.

71. It starts by comparing the actual overdraft at that date with the forecast, to see how far it has run adrift since the beginning of the financial year. It then spotlights that part of the difference which has arisen during the month under review – and in the analysed statement of receipt and payments which follows, it shows to what extent each particular class of receipt or payment has varied from the forecast, firstly for the month under review, and secondly for the whole of the financial year to date.

72. In due course this will be discussed by the directors and the accountant together – and in this connection it is surprising how much 'meat' can emerge from that discussion. It will embrace a consideration of the monthly sales, of the factory production, of factory hold-ups and late deliveries to customers, of late payments by customers, of the increase or decrease in stocks and work in progress, and of almost every aspect of the business.

Appendix I

OXCOURSE MANUFACTURING CO LTD

PRO FORMA BALANCE SHEET - March 31st, 1962

Based on the Budget for the year ending on that date

	£	£	£
<i>Share capital</i>	.. ..	10,000	
<i>Profit and loss account</i>			
At March 31st, 1961	£14,972		
Profit for the year	4,320		
	<hr/>	19,292	
<i>Future taxation</i> (1962-63)	.. ..	2,800	
<i>Hire-purchase liabilities</i> (£1,245-(12 × £83) (G))		249	
<i>Unsecured loan</i>	.. ..	10,000	
<i>Bank overdraft</i> (per forecast)	.. ..	8,112	
<i>Sundry creditors</i>			
Bought ledger (F) ..	£13,000		
Accruals: (£2,264 (F) + £240 (L)) ..	2,504		
	<hr/>	15,504	
<i>Taxation</i>			
Profits tax (1962)	£550		
Surplus reserve (I)	79		
	<hr/>	629	
<i>Directors' undrawn salaries</i>			
At 1961	£10,344		
Undrawn 1962	2,200		
	<hr/>	12,544	
<i>Less P.A.Y.E. paid</i> (D)	220		
	<hr/>	12,324	
		<hr/>	£78,910

Appendix H

OXCOURSE MANUFACTURING CO LTD

PROFIT AND LOSS ACCOUNT BUDGET

Year ending March 31st, 1961

	£	£	£	£
Bank interest (K)	405		Trading profit, brought down	17,684
Hire-purchase interest .. (G)	156			
Loan interest (E)	306			
Tax recouped (a)	194			
	—	500		
Directors' salaries:				
Drawn (D)	4,150			
Undrawn (B/S)	2,200			
	—	6,350		
Depreciation:				
Buildings (B/S)	220			
Plant (B/S)	1,460			
Fixtures (B/S)	180			
Motors (B/S)	850			
	—	2,710		
Taxation:				
Schedule A 1961-62 .. (I)	87			
Schedule D 1962-63 .. (B/S)	2,800			
Profits tax (B/S)	550			
	—			
	3,437			
Less Recouped (a)	194			
	—	3,243		
Net profit for the year .. ..	..	4,320		
		—		
		£17,684		£17,684

Appendix J

OXCOURSE MANUFACTURING CO LTD

RECONCILIATION WITH CASH FORECAST

Month ended June 30th, 1961

(1) DIFFERENCE TO DATE				
The forecast overdraft at June 30th, 1961, was ..	£	6,681		
The actual overdraft at that date is	£	7,494		
Representing an excess overdraft of	£	813		
(2) DIFFERENCE FOR THE MONTH				
The overdraft at May 31st, 1961, was below the forecast by	£	322		
The overdraft at June 30th, 1961, is above the forecast by	£	813		
So that the net receipts for June fell short of the forecast by	£	1,135		
(3) THE DEFICIT OF £1,135 FOR THE MONTH IS ACCOUNTED FOR AS FOLLOWS:				
	Forecast	Actual	Increase Decrease for month	Increase Decrease to date
Receipts	£	£	£	£
Sales collections ..	14,259	13,592	667	871
Payments	£	£	£	£
Wages	6,750	6,807	57	28
Staff salaries ..	575	575	—	—
Directors' salaries ..	346	346	—	—
P.A.Y.E. (") ..	—	—	—	15
B.L. payments:				
Materials ..	4,000	4,320	320	138
Expenses ..	2,000	1,949	51	41
Rates	—	—	—	20
Insurances ..	—	—	—	12
Hire-purchase payments	96	96	—	—
Capital expenditure ..	1,000	1,150	150	150
Bank charges ..	40	38	2	2
Bank interest ..	220	214	6	6
	£15,027	£15,495	£468	£58
Forecast excess of payments	£768			
Actual excess of payments		£1,903		
Deficit on forecast for month			£1,135	
Deficit on forecast to date				£813

73. The reconciliation statement for the month shows that collections from debtors were £667 below the forecast, but that up to the end of the previous month they were £871 below. The wages are £57 more than forecast, but were £85 below up to the end of the previous month. The purchases of materials were £320 more than forecast, but were previously £458 below. Prima facie, everything points to a slow start in the year's programme, but with an increasing tempo during the current month – and in practice this would be confirmed or otherwise by a comparison of the actual sales for April, May and June with the estimated sales for those months. If the deficiency in the collections from customers is more than can be accounted for by any deficiency of the three months' sales below the estimates, it is a sign that customers are becoming late in their payments, and when the defaulting parties have been discovered by scrutinizing the sales ledger accounts the necessary

gentle pressure can be applied – and be all the more effective by reason of its being prompt.

74. In this particular connection, the cash forecast is a salutary reminder to the Oxcourse directors that if they allowed all their customers to take an additional month's credit, their bank overdraft would be in the region of £23,000 instead of at its present figure of £8,000.

75. Having considered a typical month's reconciliation statement, there are two points of practice I might refer to:

- (a) It will be thought that to permit of the early preparation of the 1961-62 budget and cash forecast the audit of the Oxcourse Company's accounts for the year to March 31st, 1961, must have been completed within a very short time after that date. For the purposes of my illustration, let it be assumed that that was so. In practice, however, once the cash forecasting process has been adopted it is not necessary to await the audited accounts before embarking on another year's forecast. Sufficient information is already at hand from the monthly reconciliation statements to arrive at estimates of the current year's sales, costs, and expenses, and the trading budget, balance sheet budget, and cash forecast can be prepared with a high degree of accuracy – and can very quickly be amended if necessary when the audited accounts are available.
- (b) It is a requirement of 'current' accounting that the information provided should be as accurate as possible and as prompt as possible, and that it is better to be 95 per cent accurate now than to be 100 per cent accurate in three weeks' time. The cash forecast reconciliation has the advantage that it can be prepared at the close of business on the last day of the month, and is thereby 100 per cent accurate and 100 per cent timely – which can give the private company an advantage in its control system which is not always enjoyed by the larger public company.

76. This, then, is 'control by cash forecast' in action. There are many variations on the theme, and in the case of larger private companies (and public companies also) especially if they have trading subsidiaries, the monthly accounts which are prepared by their accounting staff can be related to a cash forecast (or a group cash forecast) which takes account not of the individual headings of receipts and payments but of the monthly cash benefit of the trading profit, plus or minus the variations in stocks, debtors, and creditors, and minus capital expenditure payments, taxation payments, dividends, and the expenses of more significant amount (holiday pay, insurances, pension premiums, bank interest, etc.). The cash benefit of the profit in this case consists of the forecast trading profit itself, plus the forecast depreciation provision, and plus the forecast monthly accounting reserves for those specific expenses which

are dealt with separately in the cash forecast. The variations in the debtors and creditors which are brought into the forecast (and its monthly reconciliation statements) are computed exclusive of the movements on the reserves for specific expenses. In practice this provides a most comprehensive control on the revenue and balance sheet position, but it necessitates the preparation of accurate monthly accounts by a competent accounting staff.

77. There are many members of the profession, and I declare myself to be one of them, who think that services of this nature will in time become the most important part of the average practising accountant's activities and that auditing and taxation will take

second place in his practice. I have not referred to these services as management accounting, because that expression conjures up to so many people a terrifying impression of black magic and mumbo-jumbo. The operations I have outlined for the Ox-course Company involve nothing more than simple arithmetic, but by whatever name they are called they afford a most valuable medium for harnessing the skill and experience of the practising accountant to the practical day-to-day needs of the business community – and need I say that in no section of that community are they more eagerly sought from the practising accountant than in the realm of the private company? *(To be concluded.)*

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

NEW ZEALAND

Society's Jubilee Convention Proceedings

A HANDSOME volume has been published by the New Zealand Society of Accountants containing the official report of the proceedings of the Society's Jubilee Convention held in Wellington from March 24th to 29th, 1960. The five papers presented at the technical sessions are reproduced (with photographs and short biographical details of the authors), together with the President's address at the fifty-first annual meeting of the Society held during the course of the Convention. The names of the various members of the organizing committees are given, as well as an alphabetical list of visitors who were present.

Other information placed on record includes the speech of the New Zealand Prime Minister at the opening ceremony and a full report of the speeches at the jubilee dinner, which was attended by some 700 members and guests, and their ladies. The dinner was one of the largest of its kind ever held in New Zealand.

New Chair of Accountancy

THE first holder of the Chair of Accountancy which has been established at Victoria University of Wellington will be Mr Roy Sidebotham, B.A.(COM.), A.A.C.C.A., A.I.M.T.A. Mr Sidebotham, who is expected to take up the appointment this month, was formerly senior lecturer in accounting at the University of Manchester.

In the Final examinations of both The Association of Certified and Corporate Accountants and The Institute of Municipal Treasurers and Accountants, Mr Sidebotham won First Place and Prize and was also awarded The Arthur Collins Memorial Gold Medal of the Institute. He is co-author of the recently-published book *Accounting for Local and Public Authorities*.

BELGIUM

The Eurosyndicat Index

THE Eurosyndicat Investment Research Bureau was formed some time ago by a group of French, German, Italian, Belgian and Dutch banks. Its prime object is to study investment in the Common Market, and a central office has been established at 4 rue d'Egmont, Brussels.

Its first steps has been to publish a weekly index of share prices in the Common Market – the Eurosyndicat Index. This is based on the prices of shares in 100 companies chosen by reference to the importance of their capital dealt with on European stock exchanges on December 31st, 1958, the eve of the coming into force of the Rome Treaty. At that date the shares of these companies accounted for 62 per cent of the total share values quoted on stock exchanges in the Common Market countries. The 100 companies are divided into industrial sectors which correspond with the main groupings used by those stock exchanges.

All share prices are converted into German marks and the Index is weighted in respect of the value of capital traded in for each company. The 1958 index base price can be adjusted for increases and decreases in capitalization posterior to the base date.

UNITED STATES

American Institute's Research Projects

THREE new projects, 'Accounting for foreign operations', 'Intercompany investments' and 'Price level changes' have been added to the agenda of the accounting research division of the American Institute of Certified Public Accountants. The first mentioned project will include an examination of trends in the nature and objectives of foreign investment by United States corporations. Particular

attention will be given to the development of appropriate procedures for the translation of foreign currency balances into dollars, Government intervention into exchange rates and currency convertibility, and the problems relating to foreign subsidiaries in the preparation of consolidated and parent-company financial statements.

The second subject, 'Intercompany investments', will deal with the problems which are created by the existence of unconsolidated subsidiary companies. The timing of the recognition of earnings of an unconsolidated subsidiary in a consolidated statement will be examined, as well as the extent of supplementary disclosures.

Related parent-company problems will be given special attention. These include the amount at which the investment in the subsidiary is included in the assets of the parent corporation, and the recognition of earnings of the subsidiary on the financial statements of the parent company. Consideration will also be given to such problems as the accounting for equity securities in uncontrolled affiliates, and holdings of debt securities of other corporations.

'Price level changes', the third investigation, will review the conclusions and recommendations of a report concerned mainly with the effect of changing prices on business income published in 1952 by a study group sponsored by the American Institute. This study assumes that to ignore fluctuations in the value of the dollar in accounting is unrealistic. It will also pay special attention to the use of supplementary statements as a means of disclosure, but the study will not be restricted to that aspect of the topic.

Members of the profession interested in submitting comments, suggestions, or other material for the use of the research staff on any of these projects should address their correspondence to Mr Maurice Moonitz, Director of Accounting Research, American Institute of Certified Public Accountants, 270 Madison Avenue, New York, 16, N.Y.

Jet Aircraft Without Engines

MR JOHN L. HENNESSEY, C.P.A., partner in the New York office of Arthur Andersen & Co, gave forcible expression in *The Journal of Accountancy* recently to the dangers of present accounting practices by which nothing is shown in the balance sheet (except by footnote) for large amounts of plant and equipment with related obli-

tions, simply because the assets are leased, not owned. Thus he instanced an airline company which had acquired the use of engines, under a long-term lease arrangement, to propel its jet aircraft. The balance sheet reflected aircraft without engines and liabilities which excluded the fixed obligation for the use of the engines.

Mr Hennessey concluded that the asset and liability, discounted to eliminate the element of interest and exclusive of any maintenance, service, etc., included in the rental charges, were very real and should be recorded in the accounts and shown in the balance sheet.

GERMANY

Adjustment of Company Nominal Capital

MANY West German companies have taken advantage of the simplified procedure for increasing nominal capital which the 1959 legislation introduced. Owing to conditions in the post-war capital market, most companies resorted to auto-financing which reflected itself in substantial reserves. These reserves should have been converted to nominal capital years ago, but not until the new laws allowed this to be done without payment of the tax on the issue of new capital did companies actually make the adjustment.

The German Federal Office of Statistics reports in *Wirtschaft und Statistik* (Heft 1/61, S.39) that during 1960 a total of 313 companies (A.G.) with a total capital of DM.1,902.2 million, increased their capital by DM.1,143.0 million to DM.3,045.2 million, approximately 60 per cent. The highest amount was DM.108.23 million for Daimler Benz A.G., the lowest was DM.40,000 (less than £4,000) for a firm in Dusseldorf. The ratio of increase ranged in individual cases from 10:0.4 to 10:190. The table set out below summarizes the changes.

An analysis of companies by industry shows that the ratio of adjustment was highest in wholesale and retail distribution (10:14.8), ship and vehicle construction (10:13.4), transportation (10:10.4), and agriculture, forestry and fisheries (10:10). It was lowest in the mining, power, leather, textile and rubber industries.

The inadequacy of the legal concept of nominal capital is clearly evidenced by these figures, which show the consequences of not permitting shares of no par value.

Ratio of Adjustment							No. of cos.	Old Nominal Capital	Adjustment (in DM. million)	New Nominal Capital	Ratio
More than 10:20	..	..	..	..	..	..	24	13.7	49.7	63.4	10:36.3
From 10:10 to 10:20	..	..	..	..	..	..	56	253.8	409.2	663.0	10:16.1
10:10	..	..	..	..	..	..	71	162.4	162.4	324.8	10:10.0
From 10:5 to 10:10	..	..	..	..	..	..	87	590.4	326.4	916.8	10: 5.5
Less than 10:5	..	..	..	..	..	..	75	881.9	195.3	1,077.2	10: 2.2
Totals	..	..	..	..	..	..	313	1,902.2	1,143.0	3,045.2	10: 6.0

Weekly Notes

Cost Accountants' Summer School

THE twelfth residential summer school of The Institute of Cost and Works Accountants will open at St Catherine's College, Cambridge, next Monday evening and will continue until Saturday morning.

The President of the Institute, Mr F. M. W. Hird, F.C.A., F.C.W.A., will open the school and his address of welcome will be followed by the first of the four papers to be presented during the week; this will be given by Mr H. P. Southall, F.C.A., F.C.W.A., of the Plessey Company Ltd, on 'The management accountant's influence on research and development'. The other papers will be presented by Mr R. T. Rickers, F.C.W.A., of British Insulated Callender's Cables Ltd, on 'The control of maintenance costs'; Mr D. R. C. Halford, O.B.E., B.A., B.Sc., of Associated Electrical Industries Ltd, on 'The optimum level of tooling expenditure'; and Professor F. W. Paish, M.C., M.A., Professor of Business Finance, London School of Economics, on 'Inflation and growth'. Professor Paish's address will be followed by open discussion, but the other papers will be discussed by members in groups and the group reports will be submitted to the authors who will then deal with the major points raised.

On Tuesday afternoon members will have the opportunity of visiting the establishments of either Chivers & Sons Ltd or Pye Ltd, while on Friday evening the course will conclude with a formal dinner in Hall at which a small number of guests will be present.

The summer school was first held in 1950 and has assumed an important place in the Institute's calendar. This year, once again, members will no doubt find it an enjoyable and interesting occasion.

Surtax Direction after the Little Budget

IN a leading article in last week's issue we discussed the Chancellor's statement that a further general increase in dividends in the coming year was not justified 'in present circumstances'. We observed that there had been no assurance that 'companies which have vastly increased profits and yet, in deference to the Chancellor, peg their dividends, will be immune from surtax direction'.

The Inland Revenue have asked us to draw our readers' attention to the following written question and answer reported in *Hansard* for August 3rd, 1961 (Cols. 202-203):

Mrs THATCHER asked the Chancellor of the Exchequer to what extent Her Majesty's Government's policy that increases in dividends should be avoided

at the present time applies to trading companies liable to a surtax direction under Section 245 of the Income Tax Act, 1952; and if he will make a statement.

Sir E. BOYLE: As hitherto, where there has been no material change in circumstances, surtax action will not be taken against a trading company which distributes the same proportion of its profits as the Special Commissioners have accepted as reasonable for past years. A company can obtain the Commissioners' opinion about its past dividends by applying for a clearance under Section 252 of the Income Tax Act, 1952.

It will be seen that companies which do have 'vastly increased profits' will still be expected, as far as surtax directions are concerned, to distribute the same proportion of them as before, i.e. will be expected to increase their dividends.

Wembley Building Society Order

THE Chief Registrar of Building Societies announced on September 8th that on August 22nd, pursuant to Section 6 (1) of the Building Societies Act, 1960, he made an order applying Section 6 (2) to Wembley Building Society whose registered chief office is 57 York Road, Battersea, but was formerly at 20 Harrow Road, Wembley. Section 6 (2) forbids a building society to which the subsection applies from (a) accepting the deposit of or otherwise borrowing any money, or (b) accepting any payment representing the whole or any part of the amount due by way of subscription for a share in the society, other than a payment which fell due before the making of the order. There are certain limited exceptions to this prohibition. An *ex parte* application was made to the Judge in Chambers on August 23rd, on behalf of the society, for leave to apply for a writ of certiorari to quash the order. Leave to move was given, and the case was set down for argument on September 5th. In the meantime, publication of the order was ordered to be stayed. The society later decided not to proceed with its application, which by consent was dismissed with costs.

A statement made on the authority of the chairman of the society (Mr D. J. Emile) on September 8th said that at all times during his association with the society he and his wife and children had owned over 90 per cent of the society's assets. The statement said that the reason why the Registrar made the order was that he considered that the chairman was exercising too much control over loans made by the society out of its funds 'despite Mr Emile's ownership of 90 per cent of those funds'. The statement continues:

'As soon as the order was made, Mr Emile informed the Registrar that he would pay off all members of the public out of his own private resources and that he would be obliged to dissolve the society if the Registrar persisted with the order.

'The chairman has already paid off all members of the public out of his own resources. He regrets

the loss to those members of the subscribing public of a profitable and safe investment in a society of good financial standing, but in the circumstances he feels that the course he has taken has been more in their interests than the action of the Registrar and has resulted in their immediate repayment without any waiting period.

'The society has been or is in the course of being dissolved and the Registrar was aware of this and all other material facts when he published his order.' It would seem that once the order is made, and

subject to any direction by the Court, the Registrar is under a duty to publish the fact. Section 6 (7) provides that notice of the making of an order under Section 6 'shall be published by the Chief Registrar in the London, Edinburgh and Belfast Gazettes and in such other ways as appear to him expedient for informing the public'. Before he can make an order the Registrar has to give at least fourteen days' notice to the society and consider any representations it makes. He also requires the consent of the Treasury.

This is My Life . . .

by An Industrious Accountant

CHAPTER 89

THE favourite jargon of our local lecturer in accountancy relates to accounting for top management, which he writes in large capital letters and speaks of with bated breath. He talks of forward projections, flexible forecasting, or rationalized control budgets, as if he had discovered the elixir of life, and assumes that a complicated table of calculations, only capable of interpretation by the originator, will make the world safe for democracy in the shape of the directors. Well, maybe he's right, but there's an old proverb about bringing horses to the water.

The real trouble is that top management doesn't always appreciate these sort of figures. Happy and hazy generalities are safer, they feel.

This was cogently brought home to me recently. Our wary Scots sales manager had been persuaded last Christmas, after prolonged discussions and much against his will, to forecast his anticipated six months' turnover, department by department. He picked a low percentage increase on last year's figures in each case: it was good psychology to keep it low, as anything extra at the end of June would obviously redound to his credit; he's worked on that basis for years. 'Ah, weel, ye canna tell,' he said with smug cheerfulness, 'but I'll get every bawbie that's going.'

When we got him relaxed, we persuaded him to analyse some of his predictions further. In the big Men's Tailoring section, for example, he estimated 35 per cent of his net sales for suits, 25 per cent for overcoats and gaberdines, 25 per cent for sports coats and flannels, and the balance for sundries. The ladies' departments he split percentage-wise in relation to their footage, as we have divided our long floors into inter-joined rooms, each designed subtly to lure the customer into the adjoining alcove. Other sections, such as footwear, he estimated at so much per cent for each counter and we felt that at last, and for the

first time, we had achieved a definite sales budget to be checked against actual performance.

But our veteran had a gleam in his eye. 'It's nae use', he said cheerfully. 'Ye'll be a lang time sorting yon sales dockets', and at first sight he seemed to be right. There were masses of scrawled, smudged slips, many with numerous items on them, apparently incapable of detailed analysis without an appallingly expensive allocation of man-hours. No effort had ever been made to collate them in the past; comparison seemed impossible.

We changed all that. We had four girls in training for an extension of our punched-card system, and we deliberately set them to work on our five biggest sections. All items were coded under so many category numbers, all duplicate slips marked correspondingly, a steady programme of punch, verify, sort, tabulate, reconcile . . . it worked perfectly. The girls took an interest in the results of the various sections and did a great job. We treated stocks and purchases invoices similarly; columnar trading accounts emerged for the departments. It was with pride that we presented the masterpiece to our sales manager.

In our innocence we had assumed that the variations from his expectations would interest him. They did, but not as we expected. He rejected them out of hand; his language was sulphurous when he discovered that the sectional gross profits were far removed from our traditional assumptions. 'Are ye wi' me or against me?' he demanded plaintively. He claimed first that the figures were wrong, next that the six-months period was too short to be representative of the average year, and finally that it was a freak half-year anyhow, what with storms and strikes and clearance sales. Our directors nodded sagely; masses of figures were clearly suspect; their old beliefs were comfier to cling to. . . .

After much heated argument we filed away our unwanted statistics; no one has asked to see them since. The evidence that Section No. 7A was running at a net loss has been hastily hidden like a family skeleton. Nevertheless, we hear on the office grapevine that quiet adjustments are being made to the departmental system here and there, so our efforts may not have been fruitless after all. So much for accounting for our top management. It seems I have quite a job on my hands in developing a more enlightened outlook.

Finance and Commerce

Investment Trust Accounts

FURTHER impetus has been given to the move in the investment trust world to bring investments into balance sheets on the basis of current values. The practice has now been adopted by The Second Great Northern Investment Trust Ltd, whose chairman, Mr James Ian Murray, incidentally, is a member of the general committee of the Association of Investment Trusts and is on the executive committee of the Issuing Houses Association. Secretaries to the Trust are Messrs Brown, Fleming & Murray, Chartered Accountants.

Mr Murray points out in his statement with the accounts for the year to June 1st, 1961, that investments, which in the past have been stated 'at or under cost', are now shown in the balance sheet 'at market or directors' valuation'. The balance is maintained by the insertion on the other side of 'Appreciation of investments over book value, £2,890,203'. Comparative figures have, of course, been included on the new basis, last year's appreciation being shown at £2,128,408.

In the asset position, quoted investments at the market valuation are shown at £6,411,914 compared with £4,928,321. The directors' valuation of the unquoted investments is £124,331 against £84,560 and the total portfolio stands at £6,536,245 against £5,012,881.

The full effect of the change, however, is more easily appreciated if one has the two balance sheets, this year's and last, to compare — one with the other — and these have therefore been provided in this week's reprint.

Appreciation

Drawing attention to the amount of the investment appreciation, Mr Murray points out that by adding the appreciation to the ordinary stock in issue and all the various reserves, capital and revenue, a figure of £5,024,099 is obtained which represents the ordinary stockholders' equity and is equivalent to 40s 2d per 5s unit. The increase in the equity amounted to £1,575,254, made up by increases of £125,000 in issued capital, £369,347 in share premium account, less issue expenses, £279,055 in the realization of investment account, £761,795 in appreciation of investments, and £40,057 in revenue reserves.

Mr Murray refers to the Chancellor of the Exchequer's call for a 'pause in wage increases and a voluntary restriction of dividends at existing levels'. It appears, he says, that the latter request will be

respected and this is likely to rule out such chances as there may have been of receiving in the current year a larger income on the Trust's United Kingdom investments. Moreover, in the climate the Chancellor is seeking to create, profits will be more difficult to earn.

Mr Murray does not expect there will be any difficulty, however, in maintaining the present dividend rate, although this could mean some increase in the percentage of income distributed. But obviously, earnings will be affected by the extent of the loan stock conversion. The conversion rate is given in a note to the balance sheet. On September 30th in 1961, 1963 and 1965, £20 of stock converts into 25, 24 and 22 shares respectively.

Investment Policy

ANOTHER aspect of investment trust administration is given by Sir Edward Wilshaw, chairman of The Globe Telegraph & Trust Co Ltd. He sees the possibility of a movement of institutional funds into the gilt-edged market. With the current market yield on equity stocks at such a low level, he

THE SECOND GREAT NORTHERN INVESTMENT TRUST LIMITED

PROFIT AND LOSS ACCOUNT for Year ended 1st June 1961.

1960. £		£
214,168	Interest and Dividends,	251,436
1,948	Underwriting Commissions,	2,766
216,116		254,202
4,679	Deduct—Expenses of Management,	5,325
1,600	Directors' Fees,	1,600
	Debtenture and Loan Stock Trustees' Fees,	140
140	Audit Fee,	231
231	Interest on Debtenture and Loan Stock (gross),	47,000
47,067		54,296
53,717		199,906
162,399	Profit before Taxation,	
62,225	Deduct—Taxation on the Profits of the year—	
8,625	Income Tax,	78,548
	Profits Tax,	12,200
70,830		90,748
25,219	Less—Estimated Double Taxation Relief,	30,366
45,611		60,382
116,788	Net Profit for the year,	139,524
	Deduct—Interim Dividend for the year to 1st June 1961, less Tax at 7/9—	
8,422	On the Preference Stock of 2½ per cent,	8,422
21,437	On the Ordinary Stock of 7 per cent,	26,797
	Proposed Final Dividends for the year to 1st June 1961, less Tax at 7/9—	
8,422	On the Preference Stock of 2½ per cent,	8,422
39,812	On the Ordinary Stock of 16 per cent,	61,250
78,093		104,891
38,695	Leaving	34,633
154,581	Add—Balance brought forward from last year,	203,720
10,444	Sundry Tax Adjustments,	5,107
		208,827
£203,720	Balance to be carried forward to next year,	£243,460

1959.	SHARE CAPITAL—	£	£	1959.	INVESTMENTS—	£
	Authorised—				At or under Cost—	
500,000	£500,000 5½ per cent. Cumulative Preference Stock, ..	500,000		1,554,382	Quoted on a recognised Stock Exchange in Great Britain, ..	1,755,479
500,000	£500,000 Ordinary Stock, ..	500,000		857,573	Quoted on Stock Exchanges of repute outside Great Britain, ..	1,049,709
500,000	2,000,000 Ordinary Shares of 5/-, ..	500,000		83,756	Unquoted, ..	79,285
1,500,000		1,500,000		2,495,711		2,884,473
	Issued—					
500,000	£500,000 5½ per cent. Cumulative Preference Stock, ..	500,000			£	£
500,000	£500,000 Ordinary Stock, ..	500,000			4,045,464 Valuation of Quoted Investments, ..	4,928,321
1,000,000			1,000,000		90,693 Directors' valuation of Unquoted Investments, ..	84,560
					4,136,157	5,012,881
	CAPITAL RESERVE—				CURRENT ASSETS—	
	Realisation of Investments Account—				Sales for future settlement, ..	—
	407,840 Balance at 1st June 1959, ..	451,216		12,038	Cash in Bank, in Transit and on Temporary Loan, ..	76,196
	17,549 Less—Convertible Loan Stock Discount and Expenses, ..	—		70,596	Sundry Outstandings, ..	8,678
	390,291	451,216		96,924	Net Estimated Taxation recoverable to 1st June 1960, ..	7,024
	Add—			—		91,898
	Net surplus from realisation of investments				NOTES.	
	60,925 during year, ..	164,746			1. Uncalled liability on Investments, £21,300.	
451,216			615,962		2. In valuing Foreign Securities and Current Assets the middle rates of exchange ruling on 1st June 1960 have been used.	
	REVENUE RESERVES—				3. Provision has been made for U.K. Taxation on all income received to date.	
320	Income Tax 1961-62 ..	755			4. The Loan Stock is convertible at holder's option in amounts and multiples of £20 into 5/- Ordinary Shares of the Company as follows—30th September 1961, 25 Shares; 30th September 1963, 24 Shares; 30th September 1965, 22 Shares.	
154,581	Balance of Profit and Loss Account, ..	203,720			5. The Company may re-issue Terminable Debentures up to a limit of £50,000.	
1,606,117			204,475		6. An Underwriting Agreement has been made.	
	DEBENTURE DEBT—		1,820,437			
600,000	4 per cent. Debenture Stock, 1964-84, ..	600,000				
400,000	5½ per cent. Convertible Loan Stock, 1981-86, ..	400,000	1,000,000			
	CURRENT LIABILITIES—					
14,394	Debenture and Loan Stock Interest Outstanding, ..	14,399				
847	Net Estimated Taxation to 1st June 1959, ..	—				
4,777	Purchases for future settlement, ..	68,661				
900	Sundry Outstandings, ..	24,640				
48,234	Proposed Final Dividends, less Tax ..	48,234	155,934			
			£2,976,371			
			£2,675,269			

THE SECOND GREAT NORTHERN INVESTMENT TRUST LIMITED.

Balance Sheet 1st June 1961.

[illegible]

says, it may be that when the position is a little clearer, it will be necessary for the company – and no doubt others – to consider the advisability of placing some of its funds into higher yielding dated Government stocks. The holding of Government stock at present, he points out, is 'negligible'.

Sir Edward points out that the 'dividend pause' does not apply to Globe Telegraph 'because for a number of years, it has been our well-known policy to maintain the payment of dividends at the rate of 10 per cent yearly'. And he hopes to maintain that rate so far as can be seen ahead; although if the 'pause' works out as the Chancellor hopes, it will mean that investment trusts will have to bear with dividend reductions on their investments without the compensation of increases.

Dividend Mandate

He also hoped to continue the policy of issuing from time to time free shares or shares on advantageous terms. But the practice of increasing the equity

capital in this way had a disadvantage in that as time moved on it tended to make the capital gearing 'somewhat unbalanced'. It might be wise in future to issue debentures, preference or unsecured loan stock on free or advantageous terms or by combination of both methods.

Sir Edward welcomes the idea of Britain joining the Common Market 'provided we maintain our good relations with the Commonwealth'. He saw the possibility that the British might become more foreign-language minded and that the Common Market might ease the way into the decimal system. But if decimals come, he hoped 'we shall preserve the normal mathematical terms of cents or centimes and not indulge in newly-invented terms such as Rands, Brits, Scots or such like'.

Urging stockholders to give the company a dividend mandate to pay dividends into bank accounts, he said that with the number of ordinary stockholdings, at some 14,000 – doubled in the last five years – postage and revenue alone for two dividends a year cost the company nearly £600.

CITY NOTES

IT is a long time since stockbrokers' clerks were told to organize a 'day off' system amongst themselves, but that is happening in some stockbroking firms now. One fair-sized firm reported having done only five bargains one day last week. Business is down to bread-and-butter levels and the butter is thin.

Along with the markets, the unit trusts are having their quietest time for years. The days of the easy 'block offer' of units seem to be over for the time being. Responsible unit trust managements, however, are not yielding to the temptation of introducing investment 'gimmicks'.

Groups like the 'Save and Prosper' organization and others are simply emphasizing the long-term worth of unit trust investment growth and, in particular, the benefits achieved by subscription investment. The unit buyer investing on a fixed weekly or monthly basis is shown to buy units at roughly 10 per cent below the price average. A fixed sum buys more units when the price is low.

Essentially, however, the unit trust investor buys management and the test of management is to achieve better than average results under difficult conditions and particularly under the need to be fully invested.

The specialist trust operating in the top end of the equity market with the accent on 'commerce' rather than 'industry' can generally point to a more emphatic income and capital growth record than the essentially industrial equity or mixed trust. In current circumstances that growth edge seems likely to be maintained.

RATES AND PRICES

Closing prices, Wednesday, September 13th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills

July 7	£4 10s 8.80d%	Aug. 11	£6 14s 8.51d%
July 14	£4 11s 4.47d%	Aug. 18	£6 14s 1.83d%
July 21	£4 12s 5.62d%	Aug. 25	£6 14s 0.12d%
July 28	£6 13s 9.22d%	Sept. 1	£6 14s 0.50d%
Aug. 4	£6 14s 3.33d%	Sept. 8	£6 12s 10.81d%

Money Rates

Day to day	5½–6½%	Bank Bills	
7 days	5½–6%	2 months	6½–6¾%
Fine Trade Bills		3 months	6½–6¾%
3 months	7½–8½%	4 months	6½–6¾%
4 months	7½–8½%	6 months	6½–7%
6 months	8–9%		

Foreign Exchanges

New York	2.81½–¾	Frankfurt	11.23½–¾
Montreal	2.89½–90	Milan	1745½–¾
Amsterdam	10.15½–¾	Oslo	20.02½–¾
Brussels	139.94½–¾	Paris	13.82½–¾
Copenhagen	19.36½–¾	Zürich	12.13½–¾

Gilt-edged

Consols 4%	59	Funding 3% 59–69	78½xd
Consols 2½%	38½	Savings 3% 60–70	75½
Conversion 5½% 1974	89½	Savings 3% 65–75	67½
Conversion 5% 1971	88½	Savings 2½% 64–67	82½
Conversion 3½% 1969	81½	Treasury 5½% 2008–12	82½
Conversion 3½%	52	Treasury 5% 86–89	79½xd
Exchequer 5½% 1966	96½	Treasury 3½% 77–80	67½
Funding 5½% 82–84	89½	Treasury 3½% 79–81	66½
Funding 4% 60–90	86½	Treasury 2½%	37½
Funding 3½% 99–04	56½	Victory 4%	93½
Funding 3% 66–68	80½	War Loan 3½%	53½

Reviews

Hanson's Death Duties

Fifth cumulative supplement to tenth edition (to December 31st, 1960), by HENRY E. SMITH, LL.B. (LOND.), assisted by P. H. FLETCHER, LL.B. (LOND.) (Sweet & Maxwell Ltd, London. £1 5s post paid).

This new cumulative supplement brings the main volume up to the end of 1960. More than half of it is devoted to reproducing the estate duty provisions of the Finance Acts of 1956 to 1960 inclusive, with notes, and a good deal more of the supplement is devoted to various double taxation treaty orders. The page by page noter-up to the main volume covers nearly 50 pages and is of very great utility, having obviously been prepared with care and zeal. For instance, the editors point out that the Privy Council decision in *Barbados Commissioner of Estate and Succession Duties v. Bowring* (39 A.T.C. 161) throws very considerable doubt on the official practice of claiming duty under Section 2 (1) (a) of the Finance Act, 1894, in cases similar to *Re Phillips* ([1931] 1 Ch. 347). On Section 38 (8) of the Finance Act, 1957, the editors say they doubt whether liability attaches in respect of bonus shares and debentures issued in respect of settled holdings where those bonus issues are still in the settlement at the settlor's death. They concede that the official view is otherwise and we should think, with respect, that in this instance the official view is the right one.

The District Auditor

by LEONARD MERVYN HELMORE (Macdonald & Evans Ltd, London. 25s).

The district auditor, although comparatively unknown to the ordinary citizen, occupies an important place in the public administration of the country. Several works on financial control of local authorities refer to the function of the district auditor and others have dealt with the law by which those functions are regulated. This book seeks to synthesize comprehensively the history, functions and scope of this public officer. Mr Helmore has certainly achieved this objective, for in a work which bears the hall-mark of technical competence he has done a service in producing a comprehensive study of a most important aspect of local administration.

Mr Helmore's treatment of the subject is by no means superficial; he acknowledges the fact that a book of this nature must depend mainly on documents officially made public, and on research and the published work of others - it is clear that the author has not spared himself in his own researches or in his attention to the need to present his material in a most attractive and readable manner.

The book is divided into three parts. Part I traces

the history and development of district audit against the changing background of the nineteenth century; Part II deals with the district auditor's appointment, his scope and procedure, and his powers of disallowance and surcharge; Part III views him in his relationships with other bodies and attempts to assign him his place in the constitution. The chapters which deal with the district auditor's scope and procedure, and surcharge and disallowance, are illuminating and readers, particularly auditors in private practice, will recognize some unique and distinctive features possessed by their counterparts in the sphere of public administration.

This is an extremely well written and carefully documented work of reference; although it was written with the layman in mind, it is unlikely owing to its technical nature to rank as a best-seller as far as the general public is concerned. Nevertheless it is certain to grace the bookshelves of all local government financial officers and it should be of particular value to all students of public administration. No doubt, too, many readers of this journal outside the ranks of local government would find much to interest them in this book.

Jones's Studies in Practical Banking

Fifth edition, by J. MILNES HOLDEN, LL.B., PH.D., A.I.B. (Sir Isaac Pitman & Sons, London. 25s net.)

The latest edition of this well-known work follows only three years after the previous edition, which was the first for which the original author was not responsible. The editor has continued his policy of retaining the original character of the book, as far as possible. For this reason he has not incorporated the various provisions of the Cheques Act, 1957, into the author's chapters on the payment and collection of cheques but has added a new chapter dealing with the report of the Mocatta Committee and with the effect of the Act. This account of the history of the legislation is valuable in itself quite apart from the summary of the effects of the Act. But the time will come when more alterations will have to be made in the original author's informative and characteristic words. For the present they are as lucid and practical as ever.

The Rationale of the Sterling Area

by A. R. CONAN. (Macmillan & Co Ltd, London. 21s net).

A great deal has been written on the sterling area and its significance for Britain's economy, some of it in pamphlet form suitable for the layman and much of it in the professional economic journals. What has been missing from all this, however, is any indication of official views and thinking on the subject. This gap has recently been filled by the publication of the evidence submitted by the Treasury and by the Bank of England to the Radcliffe Committee on the Working of the Monetary System. This material is, in view of the cost of the complete evidence, relatively inaccessible and students of the

sterling area will be grateful to Mr Conan for incorporating these memoranda, together with that from the central banks of a number of the overseas sterling area central banks, in this new book. The collected papers are introduced by an essay linking together the various memoranda and their views on particular issues and bringing out additional points made in oral evidence by official representatives to the Committee.

RECENT PUBLICATIONS

ECONOMICS, An Introductory Analysis, fifth edition, by Paul A. Samuelson. x+853 pp. 9½×7. 58s net. McGraw-Hill Publishing Co Ltd, London.

CONCEPTS OF DEPRECIATION, by Louis, Goldberg, B.A., M.COM., F.A.S.A., F.C.A.A. iv+130 pp. 9×5½. 30s. The Law Book Co of Australasia Pty Ltd, United Kingdom distributors: Sweet & Maxwell Ltd, London.

FIELDHOUSE'S INCOME TAX SIMPLIFIED, 1961-62 edition, completely revised by H. E. D. Ayling, A.A.C.C.A., A.S.C.T. 79 pp. 7½×5. Card covers. 4s 6d net. Arthur Fieldhouse Ltd, Premier Works, Paddock Head, Huddersfield.

FARM CROP IRRIGATION: THE ECONOMIC ASPECTS, by J. S. Nix and C. N. Prickett. Report No. 55. 44 pp. 10×7½. Paper covers. 4s post free. Farm Economics Branch, School of Agriculture, Cambridge University.

TRUSTEE SAVINGS BANKS YEAR BOOK, 1961. Official Handbook of the Trustee Savings Banks Association. 174 pp. 9×5½. Trustee Savings Banks Association, 22 Manchester Square, London, W1.

COST REDUCTION GUIDE FOR MANUFACTURING MANAGEMENT, by E. E. Wyatt and H. Clifton Morse. ix+244 pp. 11×9. \$18. Wyatt & Morse Inc., distributed by Hitchcock Publishing Co, Wheaton, Illinois.

AN OUTLINE OF THE LAW OF CONTRACT AND TORT, second edition, by G. G. G. Robb, M.A.(CANTAB.), and John P. Brookes, LL.M. xxiv+236 pp. 9×6. 36s 6d, postage 1s 6d extra. The Estates Gazette Ltd, 28 Denmark Street, London, WC2.

ELEVENTH NATIONAL TAXATION CONFERENCE

October 20th to 23rd, 1961

As already announced, the eleventh National Taxation Conference will be held in Bournemouth from Friday, October 20th, to Monday, October 23rd, under the chairmanship of Mr Percy F. Hughes, Editor of *Taxation*. The conference is open to members of the accountancy and legal professions in practice, and to those in industry and commerce.

The programme, which includes special attractions for the ladies, is as follows:

PROGRAMME

All business sessions will be held in the Town Hall.

Friday afternoon, October 20th

Inaugural address by the Conference Chairman, Mr Percy F. Hughes, and civic welcome by the Mayor of Bournemouth, Councillor Deric S. Scott. It is hoped that lady visitors will attend these events.

Address: 'Property transactions', by Mr Edward F. George, LL.B. Chairman: Mr W. S. Risk, B.COM., C.A., F.C.W.A., Immediate Past President, The Institute of Cost and Works Accountants.

Friday evening

Reception and cocktail party given by the Mayor in The Pavilion Ballroom; all invited.

Accountants: Mr J. M. Cooper, A.A.C.C.A., A.C.I.S., and Mr K. R. Tingley, A.A.C.C.A.

For the ladies: Talk on skin care and a demonstration of make-up by Dawn Cowan, personal representative of Madame Helena Rubinstein.

Saturday afternoon

Address: 'The effect of taxation on industry - with particular reference to hire-purchase companies', by Mr Julian S. Hodge, F.A.C.C.A. Chairman: Mr John Eden, M.P.

Address: 'Thoughts on our present discontents', by Mr A. G. Davies. Chairman, Mr A. S. Watson, F.C.A., President, South Eastern Society of Chartered Accountants.

Saturday evening

Civic reception and dance to be given by the Mayor and Mayoress of Bournemouth, in The Pavilion Ballroom. Invitations will be extended to all those attending the conference.

Sunday morning, October 22nd

Morning Service at St Peter's Parish Church, conducted by the Rev. W. H. Fox Robinson.

Eighteen-hole Stableford golf competition for the Town Cup on the course of the New North Bournemouth.

Sunday afternoon, October 23rd

Address: 'The work in progress', by Mr G. E. Cameron, Chairman, The Institute of Chartered Accountants.

Address: 'The future of the profession', by Mr G. E. Cameron, Chairman, The Institute of Chartered Accountants.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

MEETINGS OF THE COUNCIL

Special and ordinary meetings of the Council of The Institute of Chartered Accountants in Ireland were held in Belfast on Thursday, August 31st, 1961.

(1) *As an Associate in Practice*

Brophy, Niall Henry (Dublin).

(2) *As Associates not in Practice*

Angel, Timothy George (Kilcock, Co. Kildare); Bailie, Samuel John (Newcastle, Co. Down); Brett, Peter Raymond (Dublin); Christie, Daniel Monroe (Coleraine, Co. Derry); Clarke, David Logan (Belfast); Colligan, Paul Gerard (Dublin); Daly, Daniel Charles (Kanturk, Co. Cork); Davitt, Robert Michael (Dublin); Ferris, John M. (Lisburn, Co. Antrim); Groves-Raines, Michael Ralph Gore (Kilinchy, Co. Down); Hawkins, Luke Leo (Galway); Hayden, Edward Derek (Dublin); Hodge, Eamon Francis (Waterford); Hynes, Fergus Anthony (Dublin); Kavanagh, Patrick J. (Dublin); Kelly, David Edward Anthony (Dublin); Kennedy, Nelson (Belfast); Kennedy, Patrick Joseph (Tullaroan, Co. Kilkenny); Kiely, Peter Francis David (Dublin); Leahy, Henry Francis (Dublin); McAuley, Edward (Belfast); McCarthy, Francis William (Dublin); McCarthy, John Desmond (Waterford); McKenna, David Charles (Dublin); MacLochlainn, Sean Donald (Dublin); Meagher, Francis Joseph (Ballinamuck, Co. Longford); Molony, Alan Molyneux (Dublin); Monahan, Patrick John (Dublin); Oak, (Miss) Mirdza (Lisburn, Co. Antrim); O'Brien, Desmond Anthony (Dublin); O'Byrne, Liam Lorcan (Dublin); O'Connell, Eugene Dominic (Cork); O'Connor, Austin Francis (Dublin); Owens, Timothy Joseph (Charleville, Co. Cork); Raftery, Vincent Patrick (Sligo); Raleigh, James J. (Mullingar, Co. Westmeath); Ross, John (Ballyclare, Co. Antrim); Scott, William Noel (Dublin); Thompson, David James (Dublin); Vance, Samuel Frederick (Belfast).

Attendance

The President, Mr A. E. Dawson, was in the chair, and there were also present:

Messrs R. E. McClure, *Vice-President*; John Bacon, A. S. Boyd, Frank Cleland, M. M. Connor, J. F. Dempsey, N. V. Hogan, James Graham, John Love, R. J. Neely, R. P. F. Olden, H. W. Robinson and James Walker, with the *Joint Secretary and Treasurer* and the *Assistant Secretary*.

Apologies for absence were submitted from Messrs G. A. P. Bryan, G. E. Cameron, G. F. Klingner, D. McC. Watson and the Secretary.

Resignation from Council

The Council accepted with very great regret the resignation of Mr George Francis Klingner, F.C.A., of Dublin, who was elected to the Council in 1951 and who was President of the Institute during the year 1957-58.

It was unanimously resolved to record the Council's appreciation of Mr Klingner's long and valuable service both to the Institute and to the profession in Ireland.

Death

The death of Mr J. R. O'Leary, Fellow, Cork, was reported and noted with regret.

Fellowship

The following Associates were elected to Fellowship of the Institute:

Chamberlain, T. J. (Dublin); Keane, (Dublin); Patterson, J. C. (Vancouver); Walsh, J. F. (Dublin).

The following members

Broadbery, D. S.

Committees

Reports were received from the Finance and General Purposes, Disciplinary, Examination, Investigation and Parliamentary and Law Committees.

Examinations

It was noted that arrangements had been made to hold the last Final examinations of the Institute and under the former Society of Incorporated Accountants, presently at venues in Dublin and from the 28th to December 1st, both

'The sole question was whether profit and loss was to be treated as a continuous account, so that no dividend could be declared out of one year's profits until any debit to profit and loss in respect of prior years had been made good.'

This contention was not accepted as binding in law. 'It may be a precept of prudence and yet be far removed from the sphere of the categorical imperative', said Mr Justice Peterson in the former case. He found support for his opinion from the company's auditors.

The accountant's view, it is submitted, is that the profit and loss account is, in ordinary circumstances, a continuous account, but that where a clear break between two periods occurs through an interruption of activities—an exceptional change in the circumstances of the company, a capital reconstruction, or even a change of policy—the continuity may be broken and subsequent profits freed from the burden of past losses. In this, accountants are guided by principles of commercial prudence supported by an actual writing off of the debit balance in a manner which they can approve. It seems that the Courts have been reluctant to accept this view. In deciding whether legal sanction should be imposed, they have looked upon business activity not as a continuous flow but as a series of separate events. A single year's profit following a loss not covered by reserves might legally be distributed. A case of this kind, however, has yet to come before them.

On the question of realized capital profits, as decided in *Foster v. New Trinidad Lake Asphalt Co Ltd* ([1901] 1 Ch. 208), the Court leaned the other way. A realized capital profit is an exceptional event, outside the ordinary course of business, which may occur at any time during the financial year. It is not unnatural to look upon such an item, and consequently to deal with it, in isolation. But this was not permitted:

'I must not, however, be understood as determining that this sum or a portion of it may not properly be brought into profit and loss account . . . what is profit available for dividend depends upon the result of the whole accounts fairly taken for the year, capital as well as profit and loss. . . . I do not think that a realized accretion to the estimated value of one item of the capital assets can be deemed to be profit divisible among the shareholders without reference to the result of the whole accounts fairly taken.'

A Legal Fiction

The legal view thus appears to be that business accounts are continuous within the year but separate from one year to another. Clearly the account-

ing principle is closer to reality. Business activity is divided arbitrarily, for 'taking stock', into periods of one year. The end of the year does not in itself break the activity into a discrete series, although in the case of farming and agriculture it may coincide with a natural break. (It may well be argued that agricultural accounts should be kept in the form of a series of seasonal ventures rather than in strict calendar years.) The governing motive behind the legal attitude in these cases, however, may have been reluctance to impose a legal sanction where no deliberate dishonesty can be proved because it is inevitably severe, unless it is a friendly case, in its impact upon business credit and reputation.

'The Court will not readily interfere with the company's action and it will not do so at all except on averments which involve practically a case of fraud or dishonesty.' (*Cox v. Edinburgh & District Tramways Co.*)

One may ask whether, in order to achieve this end, it was necessary to resort to what amounts to a legal fiction. Before answering this the subject of depreciation must be considered.

Precedent v. Special Circumstances

The Courts have recognized that the financial significance of accounting terms varies according to the nature of different undertakings:

'The mode and manner in which a business is carried on . . . may have a considerable influence in determining the question what may be treated as profits and what is capital. Even the distinction between fixed and floating capital . . . may, with reference to a concrete case, be quite inappropriate.' (*Dovey v. Cory.*)

Understandably, no attempt has been made in any legal judgment to classify different types of undertaking in order to provide general guidance; this is accountant's work. At the same time the Courts cling to that traditional principle of English legal practice, to be guided by precedent. This conservative realism, as it may be called, makes extraordinarily difficult the task of drawing general principles from the various judgments.

Thought oscillates between two extremes: that the particular case is, on the one hand, a special case, and that its circumstances, on the other, are similar to those of one or more preceding cases. Moreover this respect for precedent has given the chance historical sequence, in the field of divisible profits at least, an influence on the decisions themselves which has made them more confusing still. The first in the line, *Lee v. Neuchatel*

Asphalte Co ((1889) 41 Ch.D. 1), is more than any other a special case. The company was formed to acquire and work property of a wasting nature, to gain its revenue by selling the value in the property piecemeal, with the quite exceptional provision in its articles that 'the directors shall not be bound to reserve moneys for the renewal or replacing of any lease or of the company's interest in any property or concession'. It was a single venture company of an older pattern, without the intention of perpetuity implicit in the objects of present-day limited companies. In the second case, *Verner v. The General & Commercial Investment Trust*, most of the judgment reads as though the terms of reference were the facts of the earlier case. 'Fixed capital may be sunk and lost, and yet the excess of current receipts over current payments may be divided.' An examination student might be excused for referring this quotation to the asphalt company case. Yet the investment company was a business carried on in a mode and manner which, as regards fixed if not floating assets, was entirely different.

Lord Davey's remarks in *Dovey v. Cory* show an attempt to get away from the undue influence of the *Lee* case:

'The learned judges seem to have thought that a joint-stock company, incorporated under the Companies Acts, may write off to capital losses incurred in previous years, and may in any subsequent year, if the receipts for that year exceed the outgoings, pay dividends out of such excess without making up the capital account. If this proposition be well founded it appears to me that a company whose capital is not represented by available assets need never trouble itself to reduce its capital, with the leave of the Court, and subject to the other conditions imposed by the Act. . . .'

This comment was followed up in the *Ammonia Soda Co v. Chamberlain*:

'As the law stands at present losses of circulating capital must be made good before there are any profits out of which dividends can be declared; but having regard to the observations of Lord Davey in *Dovey v. Cory* the question whether a similar rule applies in the case of fixed capital appears to be still open. But at the same time, Lord Halsbury expressed some doubt whether an abstraction of this kind . . . is applicable to the concrete realities of business life.'

Classes of Business Undertakings

Among business undertakings three important classes may be distinguished: merchanting, investment holding and production for sale; sub-

classes in this last category are mineral extraction and raw material conversion (manufacturing or processing). Actual undertakings rarely, of course, fit neatly into this classification.

A merchanting company need not invest in major fixed assets at all. Such a company, renting its warehouse or shop, will spend the shareholders' capital on merchandise and on running expenses. By selling the goods the company recovers its capital plus the gross profit margin. Out of this the running expenses are made good and the remainder, the net profit, can be distributed. The capital (it is the same capital) is reinvested in further trading. If, in a particular year, selling prices fall and a net loss is suffered, the capital invested – assuming no past profits brought forward – is to this extent lost and gone. Subsequent profits need not legally, one must suppose, be applied to making up this lost capital, though the accounting entries themselves indicate the contrary. It is circulating capital which is lost, but not circulating capital of the year in question. The loss has not entered into and formed part of the profits. The reverse, however, does not hold good. Retained profits become part of the general fund used for investment. Subsequent losses cannot be distinguished as representing any particular part of this fund and must be debited against the profits brought forward.

An investment company spends the subscribed capital on stocks and shares of other companies or institutions. Its profit is derived from interest and dividends received on investments, less current expenses of administration. In this case capital and revenue are quite distinct. The market value of the investments, the 'fixed assets', will fluctuate. For some of them it may fall with little hope of rising again, but such 'depreciation' is not incurred directly in the process of and for the purpose of earning the profits. It is incidental. Auditors would certainly advise that reserves should be set aside for reinvestment to make up the loss of income brought about by the drying up of these particular sources; but the law does not require it.

A company which engages in the conversion of raw materials invests the shareholders' money partly in circulating assets (in raw materials and other costs which make up the conversion cost of the finished products), and partly in fixed assets of an operational nature, equipment, a proportion of the cost of which will each year, through wear and tear, enter into and form part of the cost of the products to be sold, i.e. part of the circulating assets. *A fortiori*, this applies to a mineral extrac-

tion company, for a portion of the fixed asset is in this case physically contained in the saleable product. Only express intention to the contrary, as in the *Lee* case, can contradict this conclusion.

The important fact which emerges is that fixed assets are of two kinds; those which are held for the income they produce or for the expenditure they save, as when a trading company owns freehold premises and so avoids paying annual rent; and those which are used up over a period of years in the operations of the business. For the former depreciation is fortuitous; for the latter inevitable and indeed necessary. The cost of leasehold premises is, of course, only a lump-sum advance payment of rent, although not precisely, in the strict meaning of words, used up operationally. The case of *Wilmer v. McNamara & Co Ltd* ([1895] 2 Ch. 245) agrees in this point: 'I feel much more doubt whether £200 is a sufficient sum to allow in respect of depreciation of leaseholds. . . .' It was not doubted that depreciation of leaseholds was in principle properly chargeable. There can be no doubt that wear and tear, depletion and amortization are part of the working expenses of a business, but extraneous depreciation of investments, freehold property, goodwill and the like are not. One final quotation may be given from the *Lee* case:

'It is true that if the *working expenses* exceed the current gains, profits cannot be divided . . . a dividend may be paid out of current annual profits - out of profits arising from the excess of ordinary receipts over *expenses properly chargeable* to the revenue account. . . .'

Conclusions

The more important principles here maintained are:

- (1) the accounts of a business are continuous from year to year, unless the continuity is broken by some significant occurrence so that any debit balance brought forward on profit and loss account can be properly written off;
- (2) depreciation of fixed assets through wear and tear, depletion or amortization is a working expense properly chargeable against profits, but depreciation of fixed assets arising fortuitously through causes not connected with the operations of the business need not legally be made good (this does not include depreciation of trading assets or assets used for speculation which are, of course, circulating assets);
- (3) past losses may be written off against any bona fide capital or revenue gains whether realized or not, because current circulating capital is not depleted thereby;

- (4) express intention of members, subject to the proper safeguarding of creditors' claims, will override these principles.

Against the cases listed below (they are taken from Appendix B of reported cases in *Dicksee's Auditing*) are noted those facts which, in the opinion of the present writer, were decisive or should have been decisive in the particular case:

Lee v. Neuchatel Asphalte Co - members' express intention and the fact that the assets of the company were shown to be of greater total value than the nominal capital of the company.

Verner v. General & Commercial Investment Co - depreciation of fixed assets not incurred for the purpose of earning the profits.

Wilmer v. McNamara - depreciation of goodwill similarly non-operational; 'I think that the balance sheet cannot be impeached simply because it does not charge anything against revenue in respect of goodwill.'

Cox v. Edinburgh & District Tramways Co - change-over from horse traction to cable traction; an exceptional event breaking the continuity of operations.

Bolton v. Natal Land & Colonisation Co - a past loss written off against a past increase in value attributed (rightly or wrongly) to fixed assets.

Lubbock v. The British Bank of South America - a realized capital profit carried to profit and loss account.

Foster v. Trinidad Lake Asphalt Co - a realized capital profit may be brought into profit and loss account but cannot be distributed as an isolated item.

Dovey v. Cory - 'The appellant has not made out to my satisfaction that the respondent wilfully . . . misappropriated the company's funds in payment of dividends.'

Bond v. Barrow Haematite Steel Co - 'The Courts have . . . overruled directors who proposed to pay dividends, but I am not aware of any case in which the Court has compelled them to pay when they have expressed their opinion that the state of the accounts do not admit of any such payment.' (It is submitted that if the case had been reversed, and the directors had decided to recommend dividends without providing for depreciation, they should, if a case were brought, have been overruled, not because of the opinion that the assets in this case represented circulating assets, but because the depreciation was operational and there was no express intention of the members that such depreciation should not be charged.)

Ammonia Soda Co v. Chamberlain - past losses written off against a bona fide accretion in the value of fixed assets.

Stapley v. Read Bros - Accounting entries do not alter facts.

Services to the Private Company and its Members – III

by A. B. SNOW, F.C.A.

Part IV

OTHER SERVICES TO THE COMPANY

IT is inevitable in a paper of this title, which purports to cover all the services which the practising accountant renders to a very large section of the business community, that at one point or another it should overlap into fields of professional activity which have already adequately been covered by those who are specialists in those particular fields.

79. Those who attended the Oxford Summer Course of 1957 will remember the extremely comprehensive paper given by Mr A. R. English, F.C.A., on the subject 'Finance for privately-owned businesses, including reorganizations to facilitate the payment of estate duty'. For me to attempt to think of anything which has not already been said by Mr English in that paper would be tantamount to rushing in where angels fear to tread, and for those who seek enlightenment and guidance on that particular subject I can do no better than to refer them to Mr English's paper.¹

80. Similarly, on a subject which during the last four years has become of increasing significance, and upon which the advice of the practising accountant is sought ever more frequently, I am excluding from this paper any reference to surtax on controlled companies, which is to be the subject of a paper by Mr J. S. Heaton, F.C.A.,² at this Course.

Taxation — Some Philosophical Musings

81. The practising accountant is almost invariably charged with the negotiation and agreement of the private company's taxation liability, and, most probably, that of its directors and certain of its members also.

82. He needs no reminding that the measure of his service in that respect is to secure that his clients shall pay no more than the exact minimum liability which can legally be negotiated, free from any possible repercussions or sleepless nights to come. He knows that the 'smart' transaction of today might well be the bar to the badly-needed surtax clearance of tomorrow, when the raising of some new finance for expansion, or for estate duties, is at stake – but subject to common

prudence in directions such as that he does not hesitate to invoke every letter of the law when it is in his client's favour to do so.

83. Commonplace as that may be to us, it is not always so to our clients – and here I suggest that we should pause for a moment, so that in a contemplative fashion and a tranquil frame of mind we might reflect upon the relations which sometimes exist between us when taxation matters are under discussion.

84. For the accountant to explain to the directors of a private company that their subscriptions to the golf club (which are paid for them by the company because of the business which is attracted there) are not allowable for tax purposes, or to tell them that they must pay a dividend for the past year otherwise they will be in trouble under Section 245 of the Income Tax Act, 1952, is often to invoke an impassioned outburst to the effect that accountants do nothing, but act on behalf of the Revenue, and that they are not the slightest bit concerned with the interests of those who pay their fees etc.

85. In some subversive way they think he is to blame – in vain does the accountant point out that Section 245 of the Income Tax Act, 1952, is really Section 21 of the Finance Act, 1922, and that in 1922 he was in the fourth form studying the hypotenuse of the right-angled triangle – or the six wives of Henry VIII, according to his nature and temperament. All that is of no avail – his clients insist on holding him personally responsible for having introduced the idea into Parliament, and for having by sheer doggedness and persistence forced the entire House of Commons, by and with the advice and consent of the Lords Spiritual and Temporal, to put it on the Statute Book.

86. When we can come to Form P.11D the position, being then on a more personal note, gets worse. The client's mounting irritation having endured through a recital of the details making up the two separate totals of sums paid to the director in respect of expenses including sums put at his disposal and paid away by him, and sums paid by the employer to any other person in satisfaction of expenses incurred by the director, finally boils over when the time comes to evaluate the cost incurred by the employer in providing benefits in kind or facilities of any nature – which in practice means, more often than not, his private use of a motor-car owned by the company. The first hurdle is the charge for depreciation, which the accountant explains is normally calculated by the Revenue authorities to be 9 per cent of the original cost of the car. The client points out that the par-

The third and concluding part of a paper presented at the Summer Course of The Institute of Chartered Accountants in England and Wales at Oxford on July 14th, 1961.

¹ Reproduced in *The Accountant* of August 31st and September 7th, 1957.

² *The Accountant*, July 29th and August 5th, 1961.

ticular car he uses is three years old and is now worth less than half its original cost, and that if he had known that this calculation was looming up he could have sold the car and bought it back – thus establishing a lower cost price and a lower depreciation charge. The accountant agrees that that would have been a good idea, and promptly gets blamed for not having suggested it before. Eventually the calculation is completed, the accountant takes a firm hold of himself, and announces the income tax valuation of the private use – knowing quite well that the worst is about to happen. It does in fact happen – and in a seething fury the client tells him that he has lots of business friends, in an exactly similar position to himself, all with better cars than his, who pay on only £25 (or less). The accountant has no answer, for he knows quite well that some of those business friends are his own clients, and that in fact they do pay on only £25 (or less). There follows a halting, stumbling explanation to the effect that the Revenue haven't got round to everybody yet, but that they will do in time etc. – but it is of no use, the damage has been done, and confidence has been shaken.

87. The client is in a mood to have his confidence shaken, because he knows from long experience that the best and most reliable taxation advice, the kind that has his own interests most closely at heart, is to be obtained quite free of charge from those knowledgeable business people he meets casually on the golf course or in the cocktail bar – those supremely fortunate beings who drive about in magnificent motor-cars at an income tax valuation of only £10 each, and who never in the remotest circumstance suffer the slightest disallowance of their entertainment and travelling expenses. The accountant, for his part, heaves yet one more weary sigh, and wonders yet once more why he always attracts the most awkward clients, and why the Board of Inland Revenue must always send into his district its toughest and most unreasonable officials. And so it goes on.

88. Still in contemplative fashion, if not in tranquil frame of mind, it may be in the distant future that a party of accountants and clients will be dispatched many thousands of miles hence, to sit on a mountain top and there to reflect on the psychology of the accountant-client taxation relationship. Possibly, also, to tell us how each side might contrive to point the same way all the time, instead of being at daggers-drawn some of the time.

89. In the meantime, and for what it is worth – a suggestion from my own experience: cases of the type I have referred to are more frequent in the case of the private company than the public company, for in the public company some of the directors will have other business interests, and will have been involved in taxation problems before. What is lacking is the knowledge on the part of the client (obtained for himself and quite independently of his accountant) that such things do happen – that the taxation laws really are that unfair – and that he himself is not the only taxpayer who has a grievance. Thus, for the account-

ant to encourage his client to take an interest in the broad principles and practice of taxation can be very much to the advantage of them both. The client who is of the type who might read it can be advised to buy one of the standard textbooks for his office bookshelf, and both he and others can usefully be encouraged to read the monthly journal of The Institute of Directors. The knowledge acquired by the client from those sources will oil the wheels of many a subsequent discussion on taxation matters, and will at least have the effect of making him see the force and the purpose of his accountant's advice – and to appreciate, at last, that he is working for him and not against him.

Part V SERVICES TO THE MEMBERS

Personal Taxation

90. As I said in the preceding section of this paper, the accountant to the private company will almost certainly attend to the personal taxation affairs of some of its directors and members.

91. The standard of service expected of us is no less in the case of the individual than in the case of the company – that the overall liability shall be no more than the legal minimum, full advantage being taken of available allowances, and of any statutes and decided cases which are in the taxpayers' favour.

92. A point of doubt which arises here is whether as a profession we 'sell ourselves' to our personal taxation clients as skilfully as we might. It has been said to me in the past, sometimes half-jokingly, sometimes quite seriously – 'the only time I hear from you on my private tax matters is when I get a letter from you saying – 'Dear sir, the enclosed demand note is correct and may be paid – yours faithfully'.

93. The client might think in such a case that he is the subject of a very perfunctory service, or he might even think that everything which comes from the Collector of Taxes is automatically ticked off and sent to him for payment.

94. The demand note in question may perhaps have been the subject of correspondence and negotiation over quite a prolonged period, all of which may have been to the advantage of the client – but if he knows nothing about it he can hardly be blamed for not expressing any gratitude. The lesson to be learned is one which I myself have taken to heart – and that is to keep the client in touch with what is going on in connection with his own taxation affairs, and to let him see that active steps are taken to get the best possible deal for him.

95. Furthermore, to convey the impression (which is not in the least at variance with the facts) that the personal taxation service is a complete and integrated service in itself, I have found it useful to supply the client with an annual statement showing an analysis of the total income, the allowances due against that

income, the amount of income tax payable for the year, and how that amount of tax has been paid – either by P.A.Y.E. deductions, by direct assessment, or by deduction at source.

96. A separate calculation shows the surtax payable for the year, and the statement concludes with a computation of net spendable income – showing the gross income of husband and wife, the income tax paid or suffered by each, and the surtax paid by each (or, most probably, by the husband alone), and resulting in the net cash sum which each is able to spend or invest.

97. This statement brings together into proper perspective a mass of figures which otherwise would be floating round in the client's mind without form or substance, and brings home to him that the same level of professional attention is given to his personal affairs as to the company's affairs.

Taxation and Estate Duty Planning

98. The practising accountant has many opportunities to advise his clients on the various legal means which are open to them of minimizing their taxation and prospective estate duty liabilities. In the past this may have been the prerogative of the family solicitor, but nowadays the solicitor will be the first to acknowledge that with his more intimate knowledge of his client's financial affairs, the accountant is often in the more favourable position to judge when the time and circumstances are opportune for those means to be invoked.

99. Having decided that the time is opportune, the accountant offers his advice, irrespective of whether or not it has been specifically sought by the client, and sees to it that the solicitor is briefed immediately it is apparent that the client is interested. The closest collaboration between the solicitor and accountant is highly advisable, and in the interests of the client there should be no hesitation in seeking the advice of experienced taxation counsel should any points of doubt arise.

100. Broadly, the various methods of tax and estate duty planning in relation to the members of a private company fall under the following heads:

- (a) Deeds of covenant.
- (b) Outright gifts.
- (c) Gifts in consideration of marriage.
- (d) Settlements on the settlor's own infant children.
- (e) Discretionary trust settlements.

Without attempting to turn this paper into a legal textbook, it might be useful if I refer to the basic characteristics of these various forms of tax and estate duty saving:

Deeds of covenant

101. The deed of covenant is a legal method of transferring income from one person to another – and it is most useful where one person has a large income and wishes to transfer some of it to another (not being his wife or his infant child.)

102. In the personal affairs of the members of the private company there is often room for the deed of covenant – for example, one member may be supplementing his mother's income to the extent of £250 a year, another may be contributing £50 a year to the maintenance of the old family nurse in her declining years, another may be contributing £300 a year to the school fees of his grandson, and so on. In cases such as these a properly executed deed of covenant to pay an annuity to the named beneficiary for a term of more than six years (or for the joint lives of the payer and payee, whichever may be the shorter) will constitute that annuity a legal charge on the income of the payer, empowering him to deduct income tax from the gross amount at the time of payment and to deduct it in computing his total income for the purpose of surtax. To the beneficiary, the annuity will be taxed income and eligible for a claim for the repayment in whole or in part of the income tax deducted by the payer, depending on the beneficiary's circumstances in relation to other income, total income, and taxation allowances.

103. The points to be watched are:

- (1) There should be no danger in any one or more of the years concerned that the payer's income will diminish to the point at which that part of his income on which income tax is payable at standard rate is less than the amount of the gross annuity – otherwise the payer will be accountable to the Revenue in whole or in part for the tax which he deducted from the annuity at the time of its payment.
- (2) If relief from surtax is to be obtained, the sums payable under the covenant must be for the benefit of a named individual or individuals, or of the children of a named individual. That is to say, sums payable under a covenant for the benefit of a church or charity are not deductible for surtax purposes – even though they retain their advantage, both to the payer and to the payee, for income tax purposes.
- (3) In the case of small annuities to grandchildren, care should be taken to see that the receipt of the annuity will not result in the loss, for both income tax and surtax purposes, of the appropriate child allowance. For example, an annuity of £100 to a grandchild having an income of £3 10s a year from 3½ per cent War Loan will result in the loss of the child allowance to the parent – and the transaction will show a net loss. There are probably other cases in which payments under a deed of covenant could result in the loss of an income tax allowance to a party other than the payer, and care should be taken that the operation is planned for the maximum possible benefit to all the parties concerned.
- (4) The covenant should not provide for the annual payments to be accumulated, in such a way that they do not become for tax purposes the income of the beneficiary, as such a provision would render it ineffective for tax purposes.

Outright gifts

104. An outright gift of property, whether in the form of shares in a private company, land, investments, or any other asset, if made otherwise than to the donor's infant child, becomes effective both as to the capital and its income, forthwith as from the time of the gift. The donee will remain under risk of estate duty liability until the five-year period has elapsed, subject to the graduation provided by Section 64, Finance Act, 1960, for death in the third, fourth and fifth years.

Gifts in consideration of marriage

105. The most favourable opportunity which a parent has for transferring part of his private company shareholding to his children (and especially his sons, if they are to succeed him in the business) is on their marriage. A gift in consideration of marriage (which in practice means a gift made before marriage if it is expressed to be made in consideration of the marriage, or after the marriage if it was made in pursuance of an agreement to do so which itself was made before the marriage) carries complete exemption from estate duty irrespective of the date of the subsequent death of the donor, and it also attracts a much lower rate of stamp duty - i.e. 5s per cent *ad valorem* instead of the usual £2 per cent *ad valorem*.

Such a gift is not necessarily confined to shares in the family company - it can take any form, and there is no limit to its value.

Settlements and trusts - generally

106. The deed of settlement between parent and children, or grandparents and grandchildren offers a means of transferring assets from the older generations to the younger in such a way as to secure relief from estate duty, and in most cases, relief from income tax and surtax also.

107. Since August 1st, 1957, they have acquired an added significance. The directors and members of a private company who are faced with the payment of what they consider an extravagant dividend in order to avoid a surtax direction under Section 245 do not relish the thought that so much money will merely have passed in and out of their bank account - the 'out' being, of course, the surtax which is payable on it.

108. To them, the settlement of part of their shareholding into a trust for their children offers a means of 'salvaging something from the wreck'. They will not wish their children to have the absolute ownership of those shares at too early an age, but they will welcome the opportunity of allowing part of the family company's annual dividends to accumulate during the children's minority into a useful capital sum, and, from the age of 21 or their earlier marriage, to be available for them should they need it.

109. An additional advantage, and one which is not to be ignored, is that if the trustees in their uncontrolled discretion saw fit to apply the accumu-

lated income or any surplus cash capital to the purchase of a house for the child's occupation on his or her marriage, or to the purchase of a motor-car or other much-desired asset on or after attaining the age of 21, it would relieve father's pocket accordingly.

Settlements on the settlor's own infant children

110. The tax legislation allows a settlement of the capital and income of investments by a parent to his own infant child, provided that the income is accumulated until the child attains 21 or marries before that age. It is permissible to provide that the income may be used for the child's maintenance and education but if any income is so applied during the parent's lifetime it will be deemed to be the parent's income for all tax purposes.

111. Accumulation of income after the child has attained 21 is normally not permissible, and from that age, therefore, the income must actually be paid to the beneficiary. The vesting of the capital, however, may be deferred until such date as the settlor may provide - e.g. when the child attains the age of 25, 30, or even later.

In the case of a settlement of this type, there is no objection to the trust fund reverting to the settlor in the event of the beneficiary dying without issue prior to the vesting date.

112. The estate duty consequences of such a settlement are that the settlor's estate will be under risk for five years (subject to the graduation provided by Section 64, Finance Act, 1960), but that no liability will accrue on the death of the beneficiary during the trust period.

113. The taxation consequences are:

(1) If the settlor is the beneficiary's parent, any trust income applied during the settlor's lifetime to the benefit of the beneficiary while an unmarried infant will be deemed to be the income of the settlor.

(2) If the settlor is not the beneficiary's parent, repayment of income tax can be claimed on such part of the trust income as is applied to the beneficiary's benefit, subject to the beneficiary's personal circumstances.

(3) When the accumulations of income are paid to the beneficiary on attaining 21 or other specified age repayment of income tax can be claimed by the beneficiary (on his taxation personal allowances) on each year's trust income over the whole period of the accumulations.

Discretionary trust

114. This form of trust has become increasingly popular during recent years, and its great flexibility can be used to take every advantage of changing circumstances.

115. It can be used to settle a trust fund on several beneficiaries as a class, the trustees being given absolute discretion to appoint capital or income in favour of any one or more members of that class.

No one member of the class is given any absolute right to any part of the trust fund, and estate duty liability on his or her death is thereby avoided.

116. Although the benefit of Section 228, Income Tax Act, 1952, is lost (that is to say, it is not possible to claim repayment of tax on accumulated income) substantial taxation benefits can be obtained – for example, A. has settled shares in the family company on his sons B., C. and D., and their respective wives and issue until D. (the youngest) becomes 35. B., aged 32, married and with children, is now a director of the family company, at a salary of £2,500. His daughter, aged 10, is at the preparatory school, her annual fees being in the order of £250. B.'s share of the annual trust income is £500 gross. If the whole of B.'s share of the income (£306 net) is appointed by the trustees to the benefit of B.'s daughter there will be a sufficient fund, with the income tax repayment, to pay for her school fees, clothes, and other items of maintenance – the net savings to B. being the income tax repayment (£110) minus the loss of the child allowance (£39) = £71. Unless B. has a sizeable unearned income the surtax provisions of the current Finance Bill will result in the loss of the surtax saving which would also have accrued for years up to 1961–62.

117. This flexibility, both as to capital and income, can be of great advantage within the family – an incidental one being the curb which the trustees can impose on any potential black sheep. In this form of trust the trust fund must not in any circumstances be capable of reverting to the settlor, and an ultimate beneficiary must be nominated should it happen that no member of the named class of beneficiaries ever acquired a vested interest.

The accountant as trustee

118. Having decided on the subject-matter and the terms of a settlement, the settlor will be asked to nominate the trustees. It may be that if the provisions are all cut and dried and the trust period is a lengthy one, the settlor might possibly wish to appoint a trust corporation – which in common parlance means that he would like the executor and trustee department of his bank to act.

119. In the very great majority of cases, however, especially should the trust be a discretionary one, the settlor prefers that the beneficiaries should be in the hands of someone who could exercise a more personal interest in them, and the probability is that he will nominate as trustees, his wife, his solicitor, and his accountant.

120. A nomination in that capacity is a great compliment to a professional adviser, for there can be no clearer indication of the confidence which the settlor and his family have in him.

The accountant will prepare the annual accounts of the settlement and will take care of its taxation matters, and on those grounds he will probably be more intimately concerned with the trust affairs than will his co-trustees. This duty is becoming an

increasingly important part of the practising accountant's work, and for the reasons stated it is one which he can regard with a certain degree of satisfaction and pride.

Insurance Advice

121. Insurance, in its many forms, concerns virtually every client and is very frequently a topic of discussion with his accountant.

It is impossible to deal with every form of insurance in this paper, but the types of cover with which the accountant will be more closely concerned in his relations with clients will be life assurance and pensions schemes (either individual or group).

122. The life assurance policy can be used for its normal purpose (that is to say, to provide an estate for the client's dependants in the event of his premature death, or to provide an annuity on his attaining a specified age, or to provide cash to pay estate duties on his death) but it can also be used for other and more immediate purposes – such as to provide a five-years' cover for the estate duty which would be payable on a gift *inter vivos* if the donor died within that period, or to provide an annual amount over a specified period of years to pay school fees, or for any other short-term purpose.

123. To deal with two specific cases:

(1) Life assurance on a young life

A younger member of the family who has started his working days, either with the family company or as a trainee with a similar concern elsewhere, should be advised to take up a life assurance policy as soon as he is in receipt of a salary. A 'with profits' policy taken up in the early twenties is as good an investment as can be obtained anywhere and it should form the backbone of any young man's financial policy.

The following are the figures relative to a policy recently taken up by a young man aged 26:

Date of birth	:	March 6th, 1935
Age 65 on	:	March 6th, 2000
First premium	:	February 28th, 1961
Last premium	:	February 28th, 2000
Total premiums	:	40
Cover	:	£5,000 with profits
Annual premium	:	£128 10 0
Less income tax relief	:	20 3 0
		<hr/>
		£108 7 0

Total premiums paid (£108 7s × 40)		£4,334 0 0
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<i>Proceeds of policy</i>		
Basic cover		£5,000
Estimated Bonuses – 40 years at £2 10s per £100		5,000
		<hr/>
		£10,000

<i>Convertible into an annuity at age 65 (at £10 17s 6d per £100</i>		
		= £1,087 per annum for rest of life

124. An important consideration here is that the annual bonus which is added to the capital value of the policy is more than the amount of the annual net premium.

However, the all-important consideration is that for an annual outlay of little over £100 the owner of this policy has made himself basically secure for the rest of his days. Should he strike a bad patch, the policy can be used as security for annual loans to pay the premiums, and it should be clear to him that the very last thing he should do is to let this policy lapse

(2) Life assurance for school fees

125. If no benevolent grandparent is eligible or willing to provide an annuity under a deed of covenant to pay a child's school fees, a life policy can be taken up by the parent in advance of the specified educational period.

For example:

Father : aged 30

Child : aged 1

Public school education to commence at age 11

Policy to provide:

(a) £100 per term for 15 terms, plus

(b) Income of £300 per annum up to the commencement of the educational period if the father should die prior to that date

Annual premium	£137	2	0
Less Income tax relief - say	16	2	0
	£121	0	0

Total premiums paid
(£121 × 10) = £1,210

Proceeds of policy
Basic cover = £100 per term for 15
terms (spread over 5
years)

Maximum possible additional cover (if death of parent occurs immediately after taking up the policy) = £300 per annum for
10 years

The maximum cover provided by the policy thus amounts to £4,500, reducing by £300 per annum until the tenth year, when it amounts to the basic cover only - that is to say, the provision of £300 per year (£100 per term) for five years.

The net benefit of this type of policy is that instead of paying £300 per annum for five years the insured pays £121 for ten years, and has the additional advantage of life cover at £300 per annum during those ten years.

Assurance policies under the Married Women's Property Act, 1882

126. The proceeds of a life policy taken out by a husband for the benefit of his wife under the Married Women's Property Act will not be merged with the remainder of his estate on his death, but will form an estate by itself for estate duty purposes. Wherever

possible, therefore, due advantage should be taken of this in any form of estate duty planning.

127. For example:

(1) A life policy can be effected by a husband in trust for the absolute benefit of his widow or his child.

In this type of policy, trustees should be appointed (who can be the assured and his wife or the child), and the policy moneys will be paid to the surviving trustees immediately on proof of death - without waiting for the grant of probate or administration. This type of policy has the additional security of being protected against the claims of the assured's creditors.

As to estate duty, the proceeds will be free of duty if the premiums paid can be shown to be part of the normal and reasonable expenditure of the life assured. Failing that, estate duty will be levied on the full sum assured (as a separate estate) if death occurs in the first five years, or in a reducing proportion of the sum assured if death occurs thereafter.

(2) A life policy can be effected by a husband for the benefit of his wife should she survive him, otherwise for the benefit of one or more of his children.

In this case, the same considerations as to trustees, method of payment of the policy proceeds, and protection from creditors, apply as in the first example above.

Estate duty in this case will normally be levied on the full sum assured (as a separate estate.)

(3) A life policy can be effected by the wife upon the life of her husband.

In this case the premiums would normally be paid by the wife out of her separate income and in such a case no estate duty would be payable on the proceeds of the policy. If, however, the husband had paid any of the premiums, estate duty would be leviable on any such premiums paid by him within five years of his death, unless those premiums could be shown to be part of his normal and reasonable expenditure.

Pension schemes

128. So far as concerns pensions schemes, the advice of the accountant will quite clearly be sought. This is a subject which is much too involved to be dealt with at any great length in this paper, except for two matters which closely concern the directors of a private company:

(1) A controlling director (that is to say, a director of a director-controlled company who holds more than 5 per cent of the equity capital of the company) cannot be included in any group pensions scheme - and if he wishes to be provided with a pension he must take up a retirement annuity under the terms of Section 22 etc. of the Finance Act, 1956, paying the

premiums himself, and receiving the appropriate income tax and surtax relief thereon.

- (2) In relation to retirement annuities under the Finance Act, 1956, taken up by directors and executives of private companies, the accountant is well advised to calculate the net cost of the premium (after all taxation allowances have been received) and to weigh the resultant benefit against a normal endowment life assurance on which only the normal two-fifths of the premium is allowed for income tax purposes. Unless the surtax rate is quite high it can often be the case, especially if the individual is short of normal life assurance, that it will suit him better to apportion the intended premium between the two types of assurance – a point which the client himself is inclined to overlook.

The surtax provisions of the current Finance Bill add point to this, for many retirement annuity premiums from now on will not rank for surtax relief – and in the case of an individual having an earned income of £5,000 or less, the only relief to be obtained in future will be seven-ninths of the premium at 7s 9d, viz. a retirement annuity premium of £360 would attract relief of £360 minus two-ninths (£80) = £280 at 7s 9d = £108.

The Accountant as Insurance Agent

129. Here I am expressing my own purely personal views. Insurance is a vast subject and unless the professional accountant is in a position to devote a disproportionate amount of time to its study, he cannot claim to be an expert in it. For that reason, it is almost always in the client's interests to call into consultation a reputable firm of insurance brokers – and if they can be given the hint, gentle or otherwise, that they are expected to comb the insurance market and procure the best possible rates from a company whose standing and methods are beyond any question, then the client's interests will be even better served.

130. This brings me to the next point – the relationship which exists between the accountant and his client is such that the accountant's advice should not only be impartial but that it should manifestly be seen to be impartial – and any taint of self-interest is something to be avoided at all costs. On those grounds I have never reconciled myself to the principle that a professional accountant may properly receive commissions from an insurance company with whom he has placed his client's business. In the great majority of cases the client or his company already has an insurance agency, and it is not a difficult matter to arrange that in one way or another the commission is allowed to the client. If, as I suggest, an insurance broker is retained then no question arises, for the broker will receive the commission.

131. In either event, the accountant's reward for his advice is the professional fee which he receives from his client, and the receipt of a sum of money

from a third party (either in substitution for the fee or in addition to it) is surely something which repugnant to a professional relationship.

The Accountant as Investment Adviser

132. The investment advice which I myself have given during my professional life has been confined to advising, where appropriate, on the purchase of an annuity, or an investment in a building society, or some other 'safe' investment of that nature.

133. I have made it a practice never to advise investments as such (by which I mean investments which are bought through the Stock Exchange) and I have invariably referred the client to his stockbroker – on the grounds that I do not hold myself out as an expert in investment policy.

134. For that reason I have nothing to contribute on this aspect of a financial adviser's activities, but look forward with some interest to hearing the views of the members of the course on this particular matter, and to finding out whether I am failing to live up to what is expected of me.

The Accountant as a Director

135. In the fullness of time, the practising accountant may be asked to join the board of one or more of his private company clients. It may be because his frequent presence at directors' meetings has influenced his clients to think that his professional relationship with them has consolidated itself over the years into something very like that of a financial director to the company, or it may be that the older directors feel that the presence of the accountant on the board would help to bridge the gap between the older generation and the young – or they may feel that he would be an ideal 'reserve' director – who with his intimate knowledge of the company's affairs could take up the administrative reins for the time being should they be taken ill or killed in an accident.

136. There is no reason at all why the accountant should not accept such an invitation, in the full knowledge that with his professional ability and his knowledge of the company and its directors as members he will be able to contribute to the company's well-being in a very positive and practical way.

137. A matter which will probably surprise the co-directors is the accountant's intimation that there will have to be a change in the audit arrangements. If the company is not an exempt private company firm other than the accountant's own firm will have to be appointed as auditors, but if it qualifies as exempt within the meaning of the Seventh Schedule, the accountant's partner, or a member of his staff, may be appointed. The directors of the non-exempt company will probably feel aggrieved that they cannot appoint their accountant to the board without losing him as auditor, and they will resent having to bring in another firm of auditors and lay bare their innermost secrets to them.

138. Faced with the choice, they will probably prefer to retain their financial advisor as auditor and forgo any advantages which might have accrued from having him on the board – and for that reason the accountant's election to the board is more frequent in the case of the exempt private company. The appointment of the accountant's partner, or a member of his staff, as auditor will almost certainly be welcomed by the directors and members of the exempt company, and it offers an interesting subject for discussion as to why such an arrangement, allowed by the Companies Act, is sometimes frowned upon in professional circles.

139. Tangible evidence that this arrangement is not wholly approved by the profession is provided by the Institute's recent Memorandum for the Jenkins Committee on Company Law – which states:

- (a) That the Council of the Institute are unanimous in the view that a person who is in the employment of a director of the company should

not be eligible for appointment as auditor.

- (b) That in their view as to whether a partner of a director of the company should be eligible for appointment as auditor the Council are not unanimous – a majority being of the opinion that there has been no evidence of any abuse and that it has been of the greatest benefit to small family companies, for which it is an economical and convenient arrangement. The view of some members of the Council, however, is that the independence of the auditor is of paramount importance, that an important matter of principle is involved, and that regardless of the way in which this exception to the general rule may have hitherto operated in practice, it should be withdrawn.
- (c) That if the exception in favour of a partner of a director is allowed to continue, there should be a statutory obligation to disclose in the annual accounts (or in the documents annexed thereto) the fact, if it be so, that the auditor is a partner of a director of the company. (Concluded.)

Weekly Notes

Charity Commissioners' Report

THE report of the Charity Commissioners for England and Wales for the year 1960, now published (H.M.S.O., 1s 6d net), is the first to be made to the Home Secretary in pursuance of Section 1 (5) of the Charities Act, 1960. Since the greater part of that Act did not come into force until January 1st, 1961, the report is concerned more with the Commissioners' preparations for the new tasks laid upon them than with the actual operation of the Act, but is not the less interesting for that, and it deals very clearly with the constitution and constitutional position of the Commissioners themselves.

It emphasizes that, although advice on legal matters remains a vital part of the Commissioners' work, they hope to develop their services in advising charities how to act in the context of the developing statutory services in the rapidly changing circumstances of today, and reference is made to the valuable co-operation which already exists with The National Council of Social Service and other voluntary organizations. The Commissioners express their earnest desire that charities should look upon them as friends and advisers and realize that one main object of their existence is to help trustees to give effect to the intentions of the founders. It is intended to maintain and increase the contacts with the departments concerned with statutory welfare services, since questions of relationship between the purposes of charities and the scope of statutory

services will often be of considerable importance.

From their activities the Commissioners have selected almshouses as the main topic of their report, and almshouse trustees should find much encouragement in the account of the Commissioners' work in this field. The important part played by almshouses in helping to solve the problem of housing poor, old people is fully recognized, and it is one of the functions of the Commissioners, by amendment of their trusts, to provide almshouse trustees with the necessary flexibility of administration and rid them of restrictions which hinder the proper execution of the main purpose of the gift. Another aspect of the Commissioners' work which is specially mentioned is that of dealing with the very large number of army charities, the trusts of which fail as a result of amalgamations and disbandments.

It is of interest to note that the nominal value of securities held by the Official Custodian for Charities exceeds £148 million. The valuable free service offered to charity by the Official Custodian's Department is something which deserves wider appreciation than it gets.

No Tax on Farmers' Flood Subsidies

THE disastrous coastal flooding in January 1953 gave rise to the Coastal Flooding (Emergency Provisions) Act, 1953, which provided for rehabilitation schemes for farm land and for payments to the occupiers. These payments were made on an acreage basis and the Inland Revenue attempted to tax them as revenue receipts. In *Watson v. Sansom Brothers* (38 A.T.C. 118), farmers occupying permanent pasture in Kent successfully appealed to the General Commissioners against this. They conceded that had the land been arable the Revenue would have been right; an incoming tenant pays nothing for permanent

pasture which the Commissioners held to be an income-producing asset.

The Crown appealed to the High Court and after the case was stated it sought to introduce further legal arguments, namely that even though the payments were of a capital nature they must be treated as revenue in the case of a recipient who was a mere occupier and not the owner. It also sought to distinguish payments under a 1953 scheme from payments under a 1954 scheme. Mr Justice Roxburgh said that these points could not be argued without sending the case back to the Commissioners for further evidence and this he had no power to do. He dismissed the Crown's appeal but intimated that in

any new case the Crown could argue that the payments might be apportioned between capital and revenue.

Following on the *Sansom Brothers* case, the Revenue have sought to tax payments made in respect of arable land, but not permanent pasture. However, the Country Landowners' Association has now announced that the Special Commissioners have rejected this argument. According to the announcement the Special Commissioners have held that all types of acreage payment, including arable, bare land, permanent and temporary grassland are to be treated as capital in the hands of the recipient. Farmers who have mistakenly paid tax on the footing

The Institute's Cambridge Course: Some Personalities

Some personalities at the Cambridge summer course of The Institute of Chartered Accountants in England and Wales which was referred to in a leading article in last week's issue.



FRONT ROW (left to right): Mr ALAN S. MACIVER, C.B.E., M.C., B.A., *Secretary of the Institute*; Professor N. F. MOTT, F.R.S., *Master, Gonville and Caius College*; Mr P. F. GRANGER, F.C.A., *President of the Institute*; Mr P. F. CARPENTER, *Vice-President of the Institute and Chairman, Summer Course Committee*; Mr J. A. JACKSON, F.C.A., *Vice-Chairman, Summer Course Committee*.

SECOND ROW: Mr B. D. BARTON, A.C.A., *Leader, Group A*; Mr G. B. JUDD, M.A., F.C.A., *Leader, Group D*; Mr W. S. HAYES, F.C.A., *Leader, Group E*; Mr G. O. SMART, F.P.A.N.Z., *Member of the Council of the New Zealand Society of Accountants*; Mr J. C. WALKER, F.C.A., *Speaker*; Mr A. H. WALTON, F.C.A., *Member, Summer Course Committee*; Mr D. P. HUBBARD, B.A., *Assistant Secretary of the Institute*; Mr C. H. S. LOVEDAY, F.C.A., *Under-Secretary of the Institute*.

BACK ROW: Mr G. N. HUNTER, F.C.A., *Leader, Group C*; Mr C. B. G. TURNER, F.C.A., *Leader, Group G*; Mr H. T. NICHOLSON, F.C.A., *Leader, Group H*; Mr D. GARRETT, F.C.A., *Leader, Group B*; Mr W. W. WARD, F.C.A., *Leader, Group F*; Mr G. A. HOLMES, F.C.A., *Assistant Editor of 'Accountancy'*; Mr F. M. MOYS, B.A., *Administrative Assistant of the Institute*.

that the Crown were right will be able to claim repayment – unless they sent in accounts or returns after December 14th, 1954, and the assessments are still 'open'.

Buoyant Agricultural Machinery

IN the second quarter of this year the monthly average export of agricultural machinery was just under £2 million. In the same quarter the average number of agricultural tractors exported per month was about 11,000. The value of agricultural machinery was higher than in the same quarter of 1960 but the export of tractors was slightly lower. Nevertheless, the indications are that the sale of tractors may reach a record level this year. The plants of the major pro-

ducers are reported to be operating at full capacity and the Agricultural Engineers' Association has reported a cumulative increase in the production of farm tractors and machinery of 3 per cent in the first seven months of this year.

It is to be expected that if the United Kingdom goes into the European Common Market the British agricultural tractors industry will be in a particularly strong position. Its hold on export markets both in the Western Hemisphere, certain undeveloped areas in the East, and in Western Europe, has been continuously reinforced over the last few years. Even if this country does not enter the E.C.M., the industry feels confident that it can maintain its competitive position in Western Europe for some years to come.

This is My Life . . .

by An Industrious Accountant

CHAPTER 90

OUR auditor and I were leaving his office recently when a thought seemed to strike him suddenly: he muttered something about checking if the date overlapped his clerks' exam. leave and turned briskly into his articulated clerks' common-room. Too briskly, in fact. The open door disclosed a game of poker in progress, with five startled faces staring at us. Our auditor has a poker-face himself; he merely asked young Jones to see him after lunch about some costing lecture and retired imperturbably.

Outside, his language was vitriolic. He'd see them individually later, he promised, and disciplinary action of severity only second to keelhauling would be administered. True, work was slack at the moment, but nevertheless etc.

It took me back to my own early years. In my old office, in the days when pressure was seasonal and interim audits infrequent, we had two very easy-going periods – one after Christmas and the other at the end of June. Among us articulated clerks a vigorous gambling school naturally developed. Threepenny-ante poker was the favourite, interspersed with stiffer jackpots. The senior men played bridge of a high standard, subject only to voice inflections much more informative than strict Acol. *Noblesse oblige*, of course. We only played when there was actually no work available, and even then for limited periods on any day.

Our ethics were crystal clear. As my colleague, Ned, remarked, standing back to the fire with *Spicer & Pegler* tucked under his arm, we had all paid sub-

stantial premiums to the firm in consideration of their training us on the straight and narrow path to our qualifications. Furthermore, we did not receive salaries. *Ergo*, if no work was provided for us, then we were free to do as we pleased. It was a comforting doctrine.

We needed comfort in that particular January, for three times in ten days the junior partner looked in to find us gambling. The hardier spirits faced him with polite aplomb, but personally I always felt a twinge of guilt, once disgracing the poker school by an instinctive effort to push a newspaper over the discards.

About that time, one of the senior men, Tubby, a bluff, cheerful ex-major, was transferred to our room. After watching us benevolently for a while, he proposed a change. Why not try pontoon? he suggested. The prince of card-games, the *vingt-et-un* of Monte Carlo; just the ticket for us gay young bloods, what? He'd teach us, positively no trouble.

It seemed simple enough. To the uninitiated, the object is to obtain cards totalling twenty-one; thus a court card (always counting ten) and a nine obviously beat an eight, a seven and a three together. There are minor variations for aces, or for holding five low cards totalling to less than twenty-one. First Ned, then I, ran the bank against all comers for nominal stakes; it seemed a harmless enough little game.

'That's the ticket', beamed Tubby. 'You boys are real smart. Now what say we jack up the stakes to mansize? I'll run the bank; hot it up, what?'

We agreed, naturally, and the next fifteen minutes were appalling. Tubby played at incredible speed, he drew aces and five-unders and naturals; he doubled the ante regular. Our other two men were soon borrowing from Ned, who was looking rather green himself; I could see myself lunching on tea and sausage roll till the month-end. Tubby raked in the cash with gusto, like the crocodile who '... welcomed little fishes in with gently smiling jaws'.

We never played cards very much in our office after that; we were good at taking a hint.

Reviews

Essays on Accountancy

by A. C. LITTLETON. (University of Illinois Press. \$10 net.)

Contributions of Four Accounting Pioneers

(Michigan State University. \$6.50 net.)

The first of these books contains a general selection of Professor Littleton's writings over a period of forty years on accounting history and theory, on educational methods and on various detailed aspects of the profession. Casual contributions, however skilfully assembled and tailored to fit their new surroundings, seldom make a satisfactory book but the author's coherent gift of exposition and the single-mindedness of his purpose give a certain unity to the collection.

Professor Littleton is one of the subjects of the second book, the others being Mr Eric L. Kohler, the late George O. May and Mr William A. Paton. In each instance a brief biography is followed by digests of articles written by the 'pioneer' in question. An index links up the four sections but the publication gives the impression of being more of an act of homage rather than a serious contribution to the historical and philosophical literature of accounting.

Law of Banking

by LORD CHORLEY, M.A., assisted by J. MILNES HOLDEN, PH.D., LL.B., A.I.B. (Sir Isaac Pitman & Sons Ltd. London. 35s net.)

In the ten years which have elapsed since the publication of the last edition of this book, the most important event which has happened in connection with the law of banking is the passing of the Cheques Act, 1957.

The author has re-written the text of the book to do justice to the changes made by this Act and has not treated it as a mere appendix to the existing law of banking. In addition he has usefully printed two circulars of the Committee of London Clearing Bankers which introduce changes in banking practice and which may eventually affect the law. It is interesting to observe (page 111) that Lord Chorley, as an author, is inclined to take a more restricted view of the protection to bankers afforded by Section 4 (3) of the Cheques Act, 1957, than he was inclined to take as a legislator before this provision became law.

The chapter on securities for advances has been entirely re-written as has the section on bankers' documentary credits. Reference is made to the effect of recent decisions of the Courts, notably in connection with joint accounts, and the appendix of practical banking forms and precedents has been expanded. All these changes sustain and will enhance the high reputation of this work.

Investments: Principles, Practices and Analysis

Second edition, by Professor D. H. BELLEMORE. (Simmons-Boardman Publishing Corporation and Mark Paterson & Co Ltd, London. 63s net.)

This work, extending to nearly 900 pages, by the Professor of Finance in the Graduate School of Business Administration in New York University, illustrates both the excellence and some defects of good American textbook literature. Intended for the college student and layman, the book falls into four parts: investment principles; government and municipal bonds - American; accounts analysis for the investor; and lastly, the essentials of investment policy for the institution and private investor. For British investors interested in Wall Street and United States stocks, there is much information, even if they have to read through a lot of less interesting matter to gather it.

Exchange Arithmetic

by H. C. F. HOLGATE, PH.D., B.SC.ECON.(HONS.) LONDON. *Fourth Edition*, by H. E. EVITT. (Sir Isaac Pitman & Sons Ltd, London. 15s net).

A head for figures is essential to the proper appreciation of this excellent little manual which, after two chapters with the deceptively simple headings 'Multiplication' and 'Division', goes deep into the mysteries of the chain rule, the mint par of exchange, silver constants, long and 'tel quel' rates for currency bills and the delicate difference between 'going long' and 'going short' when dealing in foreign exchange. After mastering its fifteen concentrated chapters, the perceptive reader should have no difficulty in understanding what the statement 'dollar loans are available only on the basis of swap cost plus interest on sterling equivalent' means or in, say, working out how much profit a London banker makes if he accepts an offer of three months' Dutch bank paper to a face value of florins 100,000 at $2\frac{7}{8}$ per cent discount per annum when he can borrow the necessary sterling at 3 per cent per annum and the current market rates for florins are spot $10.57\frac{1}{4}-\frac{1}{2}$ and $\frac{5}{8}-\frac{1}{2}$ c. premium for three months' forward.

RECENT PUBLICATIONS

LAUNCHING AND MANAGING O. AND M., by G. E. Milward. xi + 94 pp. $7\frac{1}{2} \times 5$. 15s net. Macmillan & Co Ltd, London.

UNIFORM COST ACCOUNTING, by Kenneth S. Most, LL.B., F.C.A. 255 pp. 9×6 . 30s net. (31s including post). Gee & Co (Publishers) Limited, London.

SOLO FIDDLE, by Matthew Finch. 191 pp. $8 \times 5\frac{1}{2}$. 13s 6d net. Dobson Books Ltd, 80 Kensington Church Street, London W8.

TAX SAVING FOR THE BUSINESS MAN, by H. Toch, B.COM. 172 pp. 9×6 . 18s net. Museum Press Ltd, London.

DAIRY HERD GRAZING CHECK SHEET, A Measure of Grazing Utilization in the Dairy Herd. 11 pp. $10 \times 7\frac{1}{2}$. Paper covers. 1s post free. Issued by the Farm Economics Branch, School of Agriculture, Cambridge University.

KEY TO COMPANY LAW AND PRACTICE, Second edition, edited by T. Bolton, A.C.I.S. and Percy F. Hughes, F.C.I.S. 201 pp. $8\frac{1}{2} \times 6$. Card covers. 15s net. 15s 7d post free. Secretaries Journal Limited, 98 Park Street, London W1.

Finance and Commerce

Genesco

THIS week's reprint is devoted to the accounts of Genesco Inc. of Nashville, Tennessee, U.S.A., for the year ended October 31st, 1960. They came to hand in connection with a recently-announced deal with H. & M. Rayne Ltd, which holds the Royal Warrant as shoemakers to H.M. The Queen. 'Genesco', reads the 'blurb' in front of the 1960 annual report, 'is the world's largest and most diversified producer of apparel and footwear . . . is an organization of craftsmen and specialists devoted to creating and supplying the most attractive apparel and footwear. With its world-wide affiliations, creative designers, and leading retail stores in strategic centres, Genesco knows apparel.'

That description typifies the difference between the two companies in their reporting. Rayne produces a report and accounts, by English standards informative, but reserved in tone - as instanced by the statement by Mr Edward Rayne in his review: 'Since the beginning of our current financial year, retail sales show a useful increase over last year's figures, and our factories are busy.' But not a mention of actual sales figures.

The Genesco report, on the other hand, on the very first page, gives the following summary for the year:

	1960	1959
Net sales	\$321,191,149	\$276,422,417
Net earnings, after taxes	8,207,420	8,642,891
Total assets	155,726,631	128,846,191
Net worth	99,608,210	76,558,967
Earnings per share, common stock ..	2.17	2.66

Statistics and Pictures

Genesco also provides a fifteen-year statistical review in eleven columns of figures under the headings 'Total volume of business', 'Net sales less inter-branch business', 'Income taxes', 'Net earnings', 'Percentage of net earnings to net sales', 'Outstanding shares common stock', 'Depreciation and amortization', 'Earnings reinvested in business development', 'Current assets', 'Current liabilities', and 'Net worth'.

Pictures in annual reports are, admittedly, an embellishment which can be, and very often is, overdone. Rayne, in sober fashion, leaves them out

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OCTOBER 31, 1960

(1) PRINCIPLES OF ACCOUNTING:

All subsidiaries are consolidated except three subsidiaries which engage in operations of an unrelated nature, and seven subsidiaries whose assets and operations are not considered significant, in the aggregate. The equity in the earnings of the nonconsolidated subsidiaries for the year and the dividends received therefrom amounted to \$19,295 and \$75,934, respectively. The total equity in the nonconsolidated subsidiaries exceeds the investment costs less reserves by \$1,203,874.

During 1960, GENESCO Inc. issued 109,678 shares of common stock in connection with a "pooling of interests" with Kingsboro Mills, Inc. Accordingly, the consolidated financial statements for 1960 include the operations of Kingsboro Mills, Inc. from the beginning of the fiscal year (sales \$10,032,068 and operating profit \$536,285). Operations of L. Greif & Bro., Inc. and other companies acquired during the year are included since the respective dates of acquisition.

(2) LONG-TERM DEBT:

The long-term debt consists of the following:

3.30% debentures dated March 1, 1955, due March 1, 1980 with annual payments of \$375,000	\$ 9,218,000
3.25% notes payable dated January 1, 1955, payable \$278,000 semi-annually beginning July 1, 1962 with final payment on January 1, 1980 equal to unpaid balance	10,000,000
4.50% note payable dated July 29, 1957, payable \$2,666,666 annually beginning November 30, 1961	8,000,000
5.00% note payable dated April 23, 1957, due April 1, 1969 with annual payments of \$271,000	2,166,000
	<u>\$29,384,000</u>

(3) STOCKHOLDERS' EQUITY:

The various debt indentures and the Series D preference stock restrict stockholders' equity except as to \$43,160,907. Preference stock is comprised of:

Cumulative preference stock of \$100 stated value per share.

Authorized 172,000 shares: outstanding:

Series A, \$3.50 dividend, 28,703 shares	\$ 2,870,300
Series B, \$5.00 dividend, 16,521 shares	1,652,100
Series C, \$4.50 dividend, 12,976 shares	1,297,600
Series D, \$5.00 dividend, 69,200 shares	6,920,000

\$12,740,000

(4) STOCK OPTIONS:

Under the company's stock option plan, 125,000 shares of common stock have been reserved for issuance to certain employees at not less than 85% of market value at date of grant. Of the options granted under this plan (36,800 in 1960 at \$28.05 per share, 60,562 in 1958 at \$19.34 per share), 17,696 shares have been issued, of which 7,747 shares were issued in 1960 at prices averaging \$19.56 per share.

The company has also reserved under an employee stock purchase plan, 60,000 shares of common stock to be sold generally at 90% of market value. Under this plan, 6,014 shares have been sold to employees, of which 1,677 shares were sold in 1960 at prices averaging \$33.72 per share.

(5) LONG-TERM LEASES:

The minimum annual rentals on properties, including those sold in 1960, leased for terms of more than five years approximates \$7,005,000. During the year the company realized a net gain of \$1,200,000 after taxes from sale of acquired manufacturing properties.

The Board of Directors and Stockholders
GENESCO Inc.:

We have examined the consolidated balance sheet of GENESCO Inc. and consolidated subsidiaries as of October 31, 1960 and the related statements of earnings, earnings retained in business, and additional paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings, earnings retained in business, and additional paid-in capital present fairly the financial position of GENESCO Inc. and consolidated subsidiaries at October 31, 1960 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Nashville, Tennessee
November 23, 1960

ACCOUNTANTS'

REPORT

STATEMENT
OF CONSOLIDATED
EARNINGS

for the year ending October 31, 1960, with comparative figures for the previous year.

GENESCO and consolidated subsidiaries

CONSOLIDATED
BALANCE
SHEET

As of October 31, 1960, with comparative figures for the previous year.

ASSETS

CURRENT ASSETS:

Cash	1960	1959
U. S. Government and municipal securities, at cost which approximates market	\$ 6,574,081	\$ 9,878,081
Receivables, less allowance for doubtful accounts and discounts	400,000	2,237,643
Inventories, at lower of approximate average cost or market:	46,628,543	32,061,369
Finished shoes and other merchandise	57,509,067	48,911,056
Raw materials and work in process	17,113,154	11,976,377

TOTAL CURRENT ASSETS

128,224,845

105,064,726

Officers' and employees' stock purchase accounts, secured	1960	1959
Investments in and advances to subsidiaries not consolidated, less reserves (note 1)	14,661	670,251
Other investments, at cost	7,659,932	7,215,071
Plant, equipment, and leasehold improvements, at cost less accumulated depreciation and amortization \$13,516,288	182,255	204,284
Investments in consolidated subsidiaries in excess of tangible equity	18,734,915	13,612,326
Patents and trademarks	689,840	1,840,568
Debt discount and expense, less amortization	220,182	238,964
	\$155,726,631	\$128,646,191

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued expenses, including for 1960 current installments on long-term debt \$646,000	1960	1959
Federal and state taxes on income, estimated	\$ 20,930,938	\$ 13,201,312
	4,719,000	7,060,000

TOTAL CURRENT LIABILITIES

25,649,938

20,261,312

LONG-TERM DEBT (note 2)

29,384,000

27,625,000

MINORITY INTERESTS

1,084,483

4,400,912

STOCKHOLDERS' EQUITY (notes 3 and 4):

Cumulative preference stock of \$100 stated value per share	1960	1959
Common stock of \$1 per value per share. Authorized 5,000,000 shares; outstanding 3,711,258 shares	127,400,000	13,378,900
Additional paid-in capital	3,711,258	3,019,286
Earnings retained in business	38,475,049	20,437,294
	44,681,903	39,723,487

TOTAL STOCKHOLDERS' EQUITY

99,608,210

76,558,967

\$155,726,631

\$128,646,191

See accompanying notes to consolidated financial statements.

Net sales, including sales of leased departments	1960	1959
Cost of sales, selling, administrative, and general expenses (depreciation, amortization, lasts, dies, and patterns \$4,575,062)	\$321,191,149	\$276,422,417
Interest on long-term debt	305,625,334	257,983,177
Other charges (income), net	1,075,514	1,015,000
Federal and state taxes on income, estimated	(402,269)	317,939
	6,489,000	8,217,000
	312,787,579	267,533,116
Net earnings before minority interests	8,403,570	8,889,301
Less earnings applicable to minority interests	196,150	246,410
NET EARNINGS FOR YEAR	\$ 8,207,420	\$ 8,642,891
STATEMENT OF CONSOLIDATED EARNINGS RETAINED IN BUSINESS		
Balance at beginning of year:		
GENESCO Inc. and consolidated subsidiaries	\$ 39,723,487	\$ 28,807,564
Company accounted for as pooling of interests	2,877,287	7,624,407
	42,600,774	36,431,971
Net earnings for year	8,207,420	8,642,891
	50,808,194	45,074,862
Dividends:		
Preference stock	597,287	622,592
Common stock	5,447,994	3,920,331
Pooled company, prior to pooling of interests	81,010	808,452
	6,126,291	5,351,375
Balance at end of year	\$ 44,681,903	\$ 39,723,487
STATEMENT OF CONSOLIDATED ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	\$ 20,437,294	\$ 18,320,024
Increase resulting from:		
Excess of sales price or fair market value over par and stated value over cost, of common shares issued and preference shares purchased, net of expenses	17,926,603	318,378
Excess of capital of pooled company over the par value of GENESCO Inc. stock issued in exchange	111,152	1,798,892
Balance at end of year	\$ 38,475,049	\$ 20,437,294

See accompanying notes to consolidated financial statements.

entirely, but Genesco really 'goes to town'. One picture, illustrative of the American way of life, shows 'a free standing, drive-in shoe stores in Chattanooga'. Then there is a virtual portrait gallery of thirty-five members of its board of governors and of forty executives of its operating companies.

The 2.56 net earnings percentage to net sales for 1960 was the lowest of the fifteen-year summary, other than 2.44 in 1958. The report explains how after the 1959 uplift in hide and leather prices, 1960 brought a downturn. Dealers, having stocked up as shoe prices rose, held off on the decline. Genesco cut its prices to hold its market and keep factories going, but with expenses rising, including social security taxes, there was a 'tight position' in popular priced footwear operations in the south.

Conflict of Interests

An interesting paragraph in the report relates to possible 'conflict of interest' of executives. 'Careful examination has been made,' it runs, 'and will be made on a continuing basis, to avoid a conflict of interest on the part of any of our management people in relationships with any outstanding firms or concerns with whom we do business. We believe that we have sufficient control to protect the corporation

in these matters. A copy of detailed policy in regard to management conflict of interest will be sent on request.'

The Genesco-Rayne arrangement is the joint setting up of a new \$1 million corporation, Rayne-Delman Inc., in New York; Rayne holding a 55 per cent interest and Genesco 45 per cent. Rayne's investment will cost \$590,000 (about £210,000). Genesco will take up 200,000 5s Rayne Ordinary at a cost of about \$560,000 (£200,000) which will give it 12½ per cent of the Rayne equity. Mr Edward Rayne will be chairman and managing director of the new company.

Delman Inc. of New York, is a Genesco subsidiary with which Rayne has had links since 1936. Rayne has also had a close working arrangement with Genesco for the last five years. Mr Rayne says 'the potential of the high-price shoe business in America is undoubtedly the greatest in the world'. And in his own review with the 1959 Rayne accounts, he pointed out that 'the *per capita* consumption of women's shoes in the United States was four and a half pairs per annum against two and a half in Britain', with the interesting addendum that nylon stocking consumption was practically the same in both countries.

CITY NOTES

UNLIKE the wage pause, the stock-market pause continues without any untoward alarms. Business remains restricted with the downdrift in prices only temporarily relieved by minor tentative rallies. The rallies are always liable to fall foul of depressing industrial, economic or political developments.

New issue pressure continues to mount and this week's surprise £4½ million rights issue by the Debenhams stores group has reminded the market that new capital calls do not necessarily turn on the need to fund bank loans but on the need to prevent a company calling on its bankers.

Ordinarily Debenhams development plans would have been temporarily financed, but under present conditions the company has gone to the market for permanent capital rather than to its bankers for temporary finance.

Investment funds are undoubtedly available to support a sizeable volume of new issue business. The heavy over-subscription of the Courage Barclay and Simonds convertible debenture issue provided evidence enough of the extent of support for the right issue on the right terms.

Convertible loan stock and debenture financing is likely to set a temporary new issue fashion. It is certainly suited to present-day investment trends towards short term high yield and longer term equity growth. Under present conditions, however, the pitching of conversion terms is by no means an easy matter.

RATES AND PRICES

Closing prices, Wednesday, September 20th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills

July 14	£4 11s 4.47d%	Aug. 18	£6 14s 1.83d%
July 21	£4 12s 5.62d%	Aug. 25	£6 14s 0.12d%
July 28	£6 13s 9.22d%	Sept. 1	£6 14s 0.50d%
Aug. 4	£6 14s 3.33d%	Sept. 8	£6 12s 10.81d%
Aug. 11	£6 14s 8.51d%	Sept. 15	£6 11s 10.99d%

Money Rates

Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6¾%
Fine Trade Bills		3 months	6½-6¾%
3 months	7½-8½%	4 months	6½-6¾%
4 months	7½-8½%	6 months	6½-7%
6 months	8-9%		

Foreign Exchanges

New York	2.81 ½-¾	Frankfurt	11.24 ½-¾
Montreal	2.89 ½-¾	Milan	174.5 ½-¾
Amsterdam	10.17 ½-¾	Oslo	20.02 ½-¾
Brussels	140.02 ½-¾	Paris	13.83 ½-¾
Copenhagen	19.37 ½-¾	Zürich	12.13 ½-¾

Gilt-edged

Consols 4%	58 ½	Funding 3% 59-69	78 ½xd
Consols 2½%	38 ½	Savings 3% 60-70	75 ½
Conversion 5½% 1974	89 ½	Savings 3% 65-75	67 ½
Conversion 5% 1971	88 ½	Savings 2½% 64-67	82 ½
Conversion 3½% 1969	81 ½	Treasury 5½% 2008-12	82 ½
Conversion 3½%	51 ½	Treasury 5% 86-89	79 ½xd
Exchequer 5½% 1966	96 ½	Treasury 3½% 77-80	67 ½
Funding 5½% 82-84	89 ½	Treasury 3½% 79-81	66 ½
Funding 4% 60-90	86 ½	Treasury 2½%	37 ½
Funding 3½% 99-04	56 ½	Victory 4%	93 ½
Funding 3% 66-68	80 ½	War Loan 3½%	53 ½

Current Law

Payments by Company *Ultra Vires*

THE applicant in *Hall Parke v. Daily News Ltd and Others* ([1961] 1 All E.R. 695), sought an injunction to prevent the respondent company and its directors from (*inter alia*) applying £1,100,000, part of the company's assets, in making payments to former employees for loss of pension rights. The company was the owner of two London newspapers, the *News Chronicle* and the *Star*, and the sum in question formed part of the sum of £2 million paid to the company by Associated Newspapers Ltd, on the sale of the two newspapers thereto. The applicant's case was that the proposed payment was *ultra vires* the respondent company because it was gratuitous or *ex gratia*, and therefore could only be justified if it was reasonably incidental to the carrying on of the company's business and calculated to benefit and to promote its prosperity.

Applying *Re Lee, Behrens & Co Ltd* ([1932] 2 Ch. 46) and *Hutton v. West Cork Railway Co* ((1883) 23 Ch.D. 654), Wilberforce, J., said that the test must be what was reasonably incidental and within the reasonable scope of carrying on the business of the company. In the instant case the sale of the newspapers left the company with trading interests of a minor character only and his lordship was not satisfied, on the evidence before him, that the proposed payment was regarded by the directors as necessary in the interests of the company's business. His lordship was of the view that the payment would be *ultra vires* the company and he accordingly granted the plaintiff, who sued on behalf of himself and all other shareholders other than the defendant directors, the interlocutory injunction which he sought.

Duty of English Attorney Administrators

THE testatrix in *Re Manifold, Slater v. Chryssafinis* ([1961] 1 All E.R. 710) had an English domicile of origin but died domiciled in Cyprus. She made two wills, one in 1957 and another in 1958, by which she purported to revoke all former wills. The later will was not valid under the law of Cyprus, and the first defendant, the executor appointed by the 1957 will, accordingly proved the 1957 will there. English letters of administration, with both wills annexed thereto, were granted in England to the two plaintiffs as attorneys for the first defendant. The scheme of both wills was the same, but there were differences as to the legacies given thereby.

Buckley, J., said that the plaintiffs, as attorney-

administrators in this country for the principal administrator in Cyprus, might, after paying the expenses which they had to meet in connection with the administration of the deceased's estate in England, be justified in paying over the balance to their principal, but that it did not follow that they were bound to do so. By the law of England (Wills Act, 1861, Section 1), the 1958 will, being executed in accordance with the law of the testatrix's domicile of origin, had valid dispositive effect. Buckley, J., found himself bound by the authorities to regard the 1958 will as one which conferred a beneficial interest on those who claimed under it, and took the view that it was the duty of the Court to see that the persons charged with the administration of the estate in this country carried the dispositions contained in that will into effect so far as it lay within their power to do so. The Court was justified in saying that the English attorney-administrators ought not to hand over to the first defendant money which they had available in their hands; he would be unable to give effect to the dispositions in the 1958 will. The English attorney-administrators should distribute that money on the footing that the 1958 will was effective and revoked the 1957 will. They would have to distribute it on the basis that it constituted the whole of the assets, legacies abating as necessary; and in spite of the fact that the result would be that movables in England would not, as the normal rule of private international law required, be distributed in accordance with the law of the testatrix's domicile at her death.

Loss of Exempt Private Status

IN *Re Premn's Settlement; Truvox Engineering Co Ltd v. Board of Trade* ([1961] 1 All E.R. 833), the Court of Appeal affirmed the decision of Cross, J. ([1960] 3 All E.R. 564), that a company is not an exempt private company within Section 129 of the Companies Act, 1948, if some of its shares have been bought by the trustees of a family settlement, the settlement not in such a case being one 'disposing of the shares' within paragraph 3 (1) (b) of the Seventh Schedule to the Act. This case was discussed in a special article in *The Accountant* of February 4th, 1961, and it is not necessary to repeat the facts here. For the company it was contended that the trusts of the settlement disposed of the shares in the sense that the shares were subject, as regards their future devolution etc., to the terms of the settlement trusts, and accordingly that paragraph 3 (1) (b) was satisfied.

In the Court of Appeal, Lord Evershed, M.R., said that it would be easier to accept this contention if it were possible to relate the words 'disposing of the shares' in paragraph 3 (1) (b) back to the words 'on the trusts' which preceded them (the exception affecting 'any shares . . . held by trustees on the trusts of a . . . family settlement disposing of the shares'); but his lordship was satisfied that they could

not be so related back; to relate them back would be difficult as a matter of strict grammar, and the Court should not stretch language where what was sought was a general exemption from the provisions of the Companies Act.

Uncertainty of Objects

A SETTLEMENT made in 1954 contained a trust of income for a class of beneficiaries including past, present or future employees of the settlor. In *Re Hain's Settlement; Tooth and Another v. Hain and Others* ([1961] 1 All E.R. 848), the settlor sought a declaration that this trust was void for uncertainty, so that there was a resulting trust in his favour.

Lord Evershed, M.R., delivering the leading judgment in the Court of Appeal, said that if the trust was valid on its coming into operation, on the ground that the class of beneficiaries was then properly ascertainable, it was impossible to say that it had since become invalid because the settlor was no longer able to recall who had been employed by him. As it was not established that a complete list of beneficiaries could not have been compiled at the date of the settlement their lordships held the trust valid. Referring to the fact that it was the settlor himself who sought to upset the trust, Lord Evershed observed that the Court would be more than normally slow perhaps to hold a trust invalid at the suit of him who deliberately made it.

Advancement of Land

THE testator in *Re Collard's Will Trusts; Lloyds Bank Ltd v. Rees and Others* ([1961] 1 All E.R. 821) declared that the statutory power of advancement given by Section 32 of the Trustee Act, 1925, should apply to the trusts of his will, save that no such advancement should be made 'for any purposes connected with business'. The estate included a farm, and the trustees wished to advance it to a beneficiary who already farmed it on an agricultural tenancy. The purpose of the advancement was the avoidance of estate duty.

Buckley, J., considered whether it was within the power of the trustees to make an advancement of land under Section 32, the power contained in which was primarily a power to deal with cash. The trustees had power to advance cash to the beneficiary and then sell him the farm for that amount of cash which they had advanced; his lordship held that they might advance the farm *in specie* as the Court does not insist on circuitry of action where the same result as can be achieved legitimately by circuitous action can be achieved by direct action. As the purpose of saving estate duty was not a purpose connected with the beneficiary's business of farming, the advancement was not of a kind expressly excluded by the terms of the will.

List of Contributories in Winding-up

SECTION 257 (1) of the Companies Act, 1948, provides that after the making of a winding-up order the Court shall settle a list of contributories but empowers the Court to dispense with the settlement of a list where it appears to it that it will not be necessary to make calls on or adjust the rights of contributories. In *Re Paragon Holdings Ltd* ([1961] 2 All E.R. 41) all the issued share capital of the company was fully paid up and the liquidator, having prepared a schedule of the holders of the preference shares, with particulars of transfers executed but not registered, applied for an order dispensing with the formal preparation of a list of contributories so as to allow him to distribute the assets in accordance with the schedule.

Buckley, J., was not satisfied that the persons whose names were set out in the schedule were the only persons and the right persons to be paid the moneys which were to be distributed. There were many transfers which had not been registered. The class of shares was a large one, and there were many shareholders, of whom a large number held only a small number of shares. Accordingly, there were quite a number of possible circumstances which might come to the notice of the liquidator while settling the list which had not previously been drawn to his attention. Some shareholders might be dead, for example, in which case he would have to discover the personal representatives before he could satisfy the Court to whom he should make payment. His lordship therefore took the view that this was not a case in which the Court ought to dispense with the settlement of a list.

Indebtedness Kept Alive

THE applicant in *Re Footman Bower & Co Ltd* ([1961] 2 All E.R. 161) had supplied goods to the company from time to time and payments to the applicant on account of the company's indebtedness had been made from time to time in sums of £50 or multiples of £50. There was thus a running account, and this was operated until, on August 11th, 1953, a receiver of the company's business was appointed. On March 23rd, 1959, the company was ordered to be wound up. On March 23rd, 1953, the company owed the applicant £815 7s 1d, and between that date and the appointment of the receiver the company made six payments, of £50 each, to the applicant, the last payment being made on July 10th, 1953. During the same period the applicant supplied the company with goods of a value of £80 2s 9d. In the winding-up the applicant lodged a proof for £595 9s 10d, being £815 7s 1d less £300 plus £80 2s 9d. The liquidator admitted proof for £80 2s 9d and rejected the balance of £515 7s 1d on the ground that it was statute-barred.

Buckley, J., directed that the proof be admitted in full, holding that where, as in the present case, liabilities and payments were carried in order of date

into one entire account extending over a considerable period the true nature of the debtor's liability was a single undivided debt for the amount of the balance without regard to the several items which contributed to that balance; and that each of the payments made between March 23rd and July 10th, 1953, being made

on account generally, was a payment on account of the whole balance outstanding at the date of the payment, and therefore each was made 'in respect of' that balance for the purposes of Section 23 (4) of the Limitation Act, 1939, so that on the occasion of each payment time started to run afresh.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

T.S.S. Investments Ltd v. C.I.R. Feather Brothers Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)
July 19th, 1961

(Before Mr Justice PLOWMAN)

Profits tax - Gross relevant distributions - Company becoming subsidiary company - Alterations of accounting periods - Period for which distribution made - Finance Act, 1937, Sections 19, 20, 22 - Finance Act, 1947, Sections 35, 37, 38 (4).

At March 7th, 1955, the first appellant company carried on business as a shipowner and on the following day it sold its shipping business, but continued to carry on a trade or business within Section 19 of the Finance Act, 1937. On March 15th, 1955, it became a wholly-owned subsidiary of another company. On the following day, March 16th, 1955, it paid two dividends to its principal company. Neither dividend was expressed as payable in respect of any particular accounting period. On the same day, March 16th, 1955, the principal company gave a grouping notice under Section 22 (1) of the Finance Act, 1937, in respect of the chargeable accounting period ending March 31st, 1955.

The company's accounting periods had been the twelve months ended on March 31st in each year. On May 12th, 1959, the Inland Revenue made a direction, under Section 38 (4) of the Finance Act, 1947, that the periods from April 1st, 1954, to March 7th, 1955, and March 8th, 1955, to March 14th, 1955, and March 15th, 1955, to March 31st, 1955, should be chargeable accounting periods.

It was contended on behalf of the appellant company that the two dividends had to be taken to be, pursuant to Section 35 (1) (b) of the Finance Act, 1947, gross relevant distributions for the chargeable accounting period in which they were made, that is to say, the period from March 15th, 1955, to March 31st, 1955. It was contended on behalf of the respondent that Section 37 of the same Act required

that the dividends should be apportioned among the three chargeable accounting periods directed by the Inland Revenue. The Special Commissioners decided in favour of the respondents.

Held: the Special Commissioners' decision was correct.

Spencer, Garside and C.H.W. (Huddersfield) Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)
July 26th, 1961

(Before Mr Justice PLOWMAN)

Surtax - Undistributed income of company - Whether a subsidiary company - Whether distribution made within a reasonable time - Persons to whom income apportionable - Income Tax Act, 1952, Sections 245, 250, 256, 260.

The company carried on business as a wool merchant, and had an issued share capital in preference and ordinary shares, all of which was held by four individuals (the Garsides and the Spencers). Towards the end of the accounting period from April 1st, 1956, to March 31st, 1957, that is to say in January 1957, the company transferred all its trading assets to two new companies, and was left with two sums of £25,000 and £279,000 respectively, as its only remaining assets. At the same time the Garsides and the Spencers ceased to hold any shares in the appellant company and received shares in the two new companies; and one of those companies, which held nine-tenths of the appellant company's issued capital, was a company to which Section 245 of the Income Tax Act, 1952, did not apply.

Accounts of the appellant company were made up for the period from April 1st, 1956, to January 31st, 1957, and they showed a profit of £32,103. These accounts were adopted by the company in general meeting on February 14th, 1957; and the general meeting also confirmed the payment of a dividend on the redeemable preference shares for the accounting period mentioned, and resolved that no dividend be paid on the ordinary shares for that period. On December 13th, 1957, at an extraordinary general meeting of the appellant company, it was resolved, however, to pay a dividend on the ordinary shares for that period. This dividend was £59,130 8s 8d gross.

On July 7th, 1958, the Special Commissioners made a direction under Section 245, and apportioned

tioned the actual income of the period in question as to 303/306ths to the Garsides and Spencers, and as to 3/306ths to the two holding companies. The sums so apportioned were £54,282 and £537 respectively.

It was contended on behalf of the appellants that as no interim dividend had been paid, and as the Garsides and the Spencers were not shareholders when the dividends were declared, nothing could be apportioned to them; and that therefore the appellant company was a subsidiary company despite Section 256 of the Income Tax Act, 1952. It was contended on behalf of the respondents that the Special Commissioners were entitled to make the apportionments on the Garsides and the Spencers; that therefore, pursuant to Section 256, the appellant company was not a subsidiary company during the accounting period in question; and that the dividend declared on December 13th, 1957, was not a distribution made within a reasonable time, so as to satisfy Section 245 of the Act in that respect. The Special Commissioners decided in favour of the respondents.

Held: the Special Commissioners' decision was correct.

Brogan v. Stafford Coal and Iron Co Ltd

In the High Court of Justice (Chancery Division)
July 26th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Trade - Collieries and brickworks - Mutual insurance company - Nationalization of collieries - Acquisition of insurance company's business by National Coal Board - Liquidation of insurance company - Share in liquidation received by appellant company - Whether capital or income receipt - Income Tax Act, 1952, Schedule D, Case I.

The respondent company carried on the trade of operating collieries and brickworks down to January 1947, when its colliery business was acquired by the National Coal Board under the Coal Industry Nationalization Act, 1946. The company continued to carry on its brickworks business, and for tax purposes the company was treated as carrying on one trade.

The North Staffordshire Collieries Mutual Indemnity Ltd (Mutual) was incorporated in 1934 by a number of colliery proprietors for the purposes of insuring its members on the mutual principle, and the respondent company was one of the members. Mutual had invested funds, producing an income, and the rest of its income consisted of the premiums paid by its members. These premiums were allowable deductions for tax purposes, but Mutual was not taxed on the excess of its receipts over its expenses. After the nationalization of the collieries the business of Mutual was acquired by the National Coal Board. In 1953, Mutual was voluntarily wound up, and there was a sum of about £700 available for distribution among its members. The respondent company

received £58,000, and carried this sum to a capital reserve.

It was contended on behalf of the appellant that the £58,000 was a trading receipt of the respondent company. It was contended on behalf of the respondent that it received the £58,000 as a member of Mutual; and that the sum was not a taxable receipt. The Special Commissioners decided in favour of the respondent.

Held: the Special Commissioners' decision was correct.

Rae v. Lazard Investment Co Ltd

In the High Court of Justice (Chancery Division)
July 28th, 1961

(Before Mr Justice PLOWMAN)

Income tax - Shares held in overseas company - Distribution by that company of shares in another overseas company - Whether income arising from overseas possessions - Income Tax Act, 1952, Schedule D, Case V.

The respondent company, an investment-holding company, held 2,000 shares in a United States company (Certain), which in turn held shares in another United States company (Bestwall). Both overseas companies were incorporated in Maryland. Up to July 1956, Certain carried on the manufacture and selling of asphalt roofing material and also the manufacture and sale of gypsum and paper products. In that month the gypsum and paper side of the business was transferred to Bestwall in exchange for 715,145 shares in the latter. Certain then decided to distribute these Bestwall shares among its own members, and in August 1956 the respondent company received 666⅔rds Bestwall shares in respect of its holding of 2,000 shares in Certain.

The law of Maryland authorized any corporation of that State to declare a 'partial liquidating distribution' to its stockholders, and enabled the distribution to be effected by the transfer of a portion of the assets of the distributing company. The distribution was not to impair the company's stated capital. Certain did not declare a dividend in order to make the distribution in question, and the 666⅔rds Bestwall shares was a part of Certain's capital assets.

It was contended on behalf of the appellant that the 666⅔rds shares in Bestwall formed a receipt of the respondent company taxable under Case V of Schedule D as income arising from a possession out of the United Kingdom. It was contended on behalf of the respondent that the shares represented a return to the respondent of a part of the capital of Certain, and that the shares were not a taxable receipt. The Special Commissioners decided in favour of the respondent.

Held: the receipt of the shares left the respondent's foreign possession intact; and that therefore the shares were an income receipt of the respondent for tax purposes.

COST ACCOUNTANTS' SUMMER SCHOOL

Twelfth Residential Course at Cambridge

The twelfth residential summer school of The Institute of Cost and Works Accountants was held this week at St Catharine's College, Cambridge. The opening address was given by the President of the Institute, Mr F. M. W. Hird, F.C.A., F.C.W.A., and four papers were presented.

Following each paper, with the exception of Professor F. W. Paish's address on 'Inflation and growth' which was followed by open discussion, the school divided into discussion groups. A detailed report prepared by each group leader was presented to the author who, at a final session, dealt with the major points raised by the groups.

Research and Development

The importance of research and development and the rapidity with which expenditure on them was growing were reasons why accountants should help management

control this expenditure to ensure its direction into the most fruitful channels, stated Mr H. P. Southall, F.C.A., F.C.W.A., of The Plessey Co Ltd, in his paper entitled 'The management accountant's influence on research and development'.

An analysis of research establishments in Great Britain, he said, showed that 71 per cent had personnel of over one hundred and the average cost per qualified worker for all manufacturing

industries was £10,791, the figure for the aircraft industry being £30,763. For these reasons, Mr Southall based his discussion on the needs of larger establishments.

After dealing with the financial and organizational aspects, the author considered the problems of control. 'The problem is summed up in those conjugate principles . . . "research workers must have freedom" and "management must manage".' The key to the accountant's problem was his ability to achieve harmony with the research director by demonstrating to him the need of a good accounting and reporting service.

The basic tools were the manpower, financial and capital budgets, cost accounts for individual projects, and comparison of costs and commitments with progress achieved. These, Mr Southall declared, must be allied with a clear authorization procedure and prompt reporting of costs and commitments incurred. Compilation of budgets, accounting for costs by type, allocation and apportionment problems, and reporting and controlling costs were dealt with under two main functional heads - establishment and projects. Illustrations provided were taken from an organization

carrying out a large volume of direct contract work, and research and development on its own account.

It was necessary, he said, that the initiation of a research or development project should specify sufficient detail to enable it to be costed, and broken down into stages, and the time by which each stage should be reached should also be indicated. This was bound up with the problem of financing such expenditure, irrespective of the source of the funds; a separate decision had to be taken at each stage, whether the further investment of funds was justified by profitability calculations. Project evaluation, Mr Southall added, although difficult, must be attempted, and examples were given of American practices in this field.

The cost of research and development did not end with the success of the project, he declared. If production was decided upon, it extended through the period required to translate prototype into production unit, when problems of labour remuneration, pilot plant operation, and after-sales service all required appropriate budgetary control techniques.

The management accountant, Mr Southall said, should assist at all stages of research and development, from conception to maturity, and be ready to stifle weaklings so that the strength and soundness of the species might remain unimpaired. Nevertheless, if the managing director's hunch paid off, the accountant must be prepared to suffer the indignity of a red face.

The Optimum Level of Tooling Expenditure

The paper given by Mr D. R. C. Halford, O.B.E., B.A., B.Sc., of Associated Electrical Industries Ltd, on 'The optimum level of tooling expenditure', was devoted to the problem of deciding long-term investment in machine tools in the face of uncertainty about the future.

The uncertainty factor, he said, was usually catered for by raising the minimum acceptable rate of return, as a kind of insurance, but this postulated an acceptable lower rate being first arrived at by either the industrialist or the analyst. It was preferable for the analyst to confine himself to saying 'If so and so, then such and such', in order to enable the industrialist to answer a wide range of questions.

The author illustrated this with two examples, using the unadjusted rate of return method of calculating profitability and proceeding from the differential costing approach. The first example concerned mechanizing an operation previously done by hand, with consequent



Mr H. P. Southall



Mr D. R. C. Halford

cost savings. After calculating the unadjusted rate of return for a hypothetical machine purchase, Mr Halford showed that this was based on certain assumptions about volume of output and wage rates. If similar calculations were made assuming different volumes and wage rates, the resulting rates of return on investment could be presented in the form of a table or a graph. This enabled the industrialist to study the problem of investment in the light of a number of possible situations which might result, and use his own judgment of the probabilities as a guide.

The second example covered tooling up to manufacture a new product. The profitability of the investment in fixed assets and working capital was calculated on the assumption that a certain number of units could be made and sold. But if other assumptions were quantified and the results examined, it became apparent that the different assumptions were of considerable use to management. The potential loss if business failed to materialize could be compared to the potential profit if it did, and expressed in the form of 'odds'. 'It is for the management to make an intelligent bet based on the analyst's display of the odds,' he said.

An appendix to the paper dealt with certain problems of nomenclature, the nature of the differential return on investment, accommodating changes in the variable portion of overhead, and the method of measuring investment. The usual accounting practice of dividing the investment by two was queried by Mr Halford, on the grounds that it ignored working capital required and also that liquidation did not usually follow an even course.

The Control of Maintenance Costs

Budgets and budgetary control were further examined by Mr R. T. Rickers, F.C.W.A., of British Insulated Callenders Cables Ltd, in his paper on 'The control of maintenance costs'.



Mr R. T. Rickers

Large investment in plant and machinery, he said, permitted reductions in the direct labour cost of the product, but brought in its wake a change in emphasis from the production organization to the maintenance organization.

Maintenance cost control, he declared, was difficult to achieve because of the greater number of cost variables involved, and for this reason many maintenance engineers and managers believed that budgetary control was ineffective. The author examined the nature of maintenance costs and classified work into long-cycle, long-range work and shut-down work, both of which permitted planning well in advance; short-term non-repetitive work which could not be fully planned, planned routine repetitive work, and breakdowns. Mr Rickers said that the trend should always be towards more long-range, planned work.

The standard of maintenance had to be set, because

maximum maintenance costs do not necessarily result in minimum production costs. The work load of the maintenance staff could then be planned, and breakdown work excluded from the budget. A budget allowance for long-term and shut-down work would then be calculated separately from the allowance for short-term non-repetitive and routine repetitive tasks, and the result combined for the maintenance budget. The next step, he said, was to separate volume factors from efficiency factors. This called for, in addition to budgets, standard or estimated costs for all work performed during the period and actual costs of maintenance during the period.

Whereas standards could be set with some ease for major work, and routine repetitive tasks could be studied in relation to past performances, short-term planned non-repetitive jobs would be costly to deal with individually. An average of past performances might be developed for use as standards, although such a method would be unsuitable for manufacturing processes. Collection of actual expenditure details must be undertaken in respect of each class of maintenance work separately. It would then be possible to calculate the amount of maintenance work carried out, at the standard allowance, and compare this with the budgeted maintenance expenditure and actual maintenance expenditure, in order to throw up volume and efficiency variances.

Inflation and Growth

Professor F. W. Paish, M.C., M.A., Professor of Business Finance at the London School of Economics, addressed members on the final day of the school on the subject of 'Inflation and Growth.' The growth of output, he said, could be regarded as the result of the combination of two factors - a growth of the capacity to produce and a change in the proportion of that capacity currently in use.

After dealing with price and capacity fluctuations since the war and examining the United Kingdom's balance of payments position, Professor Paish said that an answer to the prevention of inflation was a more rapid growth of capacity since this would lead to a higher rate of income growth compatible with long-term price stability.

Other possible measures he mentioned were a higher rate of saving and investment. This would go some way to accelerate the growth of capacity, but by itself, probably less than is sometimes thought. For a really substantial rise in the rate of growth what was probably needed was also a general increase in skills, both of management and labour, as well as better relations between them.

Summer School Dinner

On Friday evening, the summer school dinner was held in Hall, with the President of the Institute occupying the chair.

The toast of 'The University and City of Cambridge' was proposed by Mr J. Borsay, F.C.W.A., a Past President of the Institute, and responses were made by Mr W. K. Lacey, M.A., Fellow of St Catherine's, on behalf of the University, and by Councillor A. Halcrow, Mayor of Cambridge, on behalf of the City.

Mr D. R. C. Halford proposed the toast of 'The Institute of Cost and Works Accountants' and the President of the Institute replied.

TAX CONFERENCE IN ISRAEL

Fifteenth Congress of the International Fiscal Association

The fifteenth annual congress of the International Fiscal Association was held at Jerusalem from August 28th to August 30th. Nearly 300 participants came from twenty-two countries; the delegation from the United Kingdom branch was led by Mr A. G. Davies, LL.B., chairman of the branch (to whom we are indebted for this report), and included the British national reporters on the first and second subjects of the Congress, Mr S. H. Robinson, B.COM., F.C.A., and Mr D. F. A. Davidson, A.C.A.

The first of the two subjects studied was 'Unilateral measures for the avoidance of double taxation, especially as regards fiscal aspects of the relationship between capital exporting countries and countries in process of development', the general reporter being Dr Ernst W. Klimowsky, of Tel Aviv, and the second subject was 'The taxation of inter-connected companies', the general reporter being Ministerialdirektor Wolfgang Mersmann, of Bonn.

Variation in Quality

It is inevitable in studies of this type that there should be considerable variation in the quality of the national reports submitted. Some of the national reports showed all the signs of careful preparation and are useful additions to the literature on the two subjects discussed. The work of the general reporters, while throwing up several controversial issues, was a masterly synthesis of the national reports presented. Both Dr Klimowsky and Dr Mersmann drew very definite conclusions in their respective fields. Dr Klimowsky concluded that unilateral relief by capital exporting countries *vis-à-vis* under-developed countries should be encouraged; Dr Mersmann favoured consolidation of group profits made inside any national territory either by way of recognition of an 'organ-schaft' or by consolidated returns.

The debates on the first subject were under the chairmanship of Dr Jacobus Van Hoorn, the Head of the Bureau of Fiscal Documentation. He brought to the debate his very wide and deep knowledge of international fiscal affairs. Both he and Dr Klimowsky expressed the view that one of the difficulties in discussing the relationships between capital exporting countries and under-developed countries has always been the invasion of the subject by political and economic considerations, and by references to the privileges and duties of the two groups of countries. They tried bravely to ensure that a congress of tax specialists limited the scope of the discussion to the specific tax features of the problem. The attempt was as successful as Mrs Partington's mop.

During the discussion it became obvious that although the subject had previously been discussed at Madrid in 1959, it had not been exhaustively studied, and it was finally decided to recommend that a study group be set up to examine the development of fiscal relations between capital exporting countries and those in course of development. The resolution which was adopted at the conclusion of the discussion was itself

almost an essay on the subject. It recommended the further implementation of unilateral relief, and added (what seems to be a pious hope in a world where governments 'horse-trade' concessions) that the existence of unilateral relief should not be used to embarrass the provider of such relief when it sought to negotiate bilateral treaties.

The resolution also specifically disclaimed any International Fiscal Association interest in political, financial, and economic policy, but went on to say that as the effects of tax concessions granted by developing countries are nullified by the tax systems of many capital exporting countries, it was undesirable that the benefit of such tax concessions should go to the Treasuries of capital exporting countries rather than to the taxpayer concerned. Where business profits are remitted or declared as dividends from a developing country, the International Fiscal Association recommended that capital exporting countries should either allow exemption, or notional credit. It is interesting to note that there was no overt opposition at the Congress, not even from Government officials, to the idea that capital exporting countries should limit or surrender taxing rights in respect of income derived in developing countries. In international discussion, the idea of retaining extra-territorial taxing rights seems to be almost as suspect as political colonialism at a United Nations' debate. It was perhaps coincidental that at the end of Congress the West German Revenue initiated a double taxation agreement with Israel, which contained a tax-sparing clause in respect of Israeli income which had been the subject of a 'tax holiday'.

Main Value

The main value of the International Fiscal Association's work in the relationships between capital exporting countries and developing countries will, it is clear, lie in the documents produced on the subject by the projected study group, rather than in any portmanteau resolutions.

There was greater interest in the first subject than in the second, which seemed to be based on a hostile view of large groups in general. In his general report Dr Mersmann referred to the fact that

'... it is much more difficult for the public to pierce the veil of a group than that of a large unconnected enterprise. As regards certain groups, objections are voiced not only on account of the difficulty of piercing the veil over their business activities, but also on account of the manner in which liability is limited and responsibilities are divided.'

On the question of international groups of companies, Dr Mersmann said that

'... thinking on this matter is to a large extent influenced by such questions as the shifting of profits and capital ... and also the employment of devices to the detriment of the Exchequer of high tax countries. . . '

He appeared to believe that the relationship between

a tax adviser and a group of companies is somewhat analogous to that of the organ-grinder and his dancing monkey.

The resolution on the second subject recommended that for inter-connected groups in the same country, multiple taxation should be avoided by recognition of the organic relationship between group companies, or by the franking of inter-company income. In the international field, multiple taxation should also be avoided. Countries in which subsidiary companies have their fiscal domicile should not in principle levy taxes on dividends paid by the subsidiary, while countries in which parent companies had their fiscal domicile should either exempt dividends from sub-

sidiaries, or mitigate taxation on such dividends by full credits in respect of underlying taxes.

Social Functions

Congress delegates were able to see some of the developments of the State of Israel, notably in the Negev and in Galilee. Official receptions were also held in Jerusalem by the Mayor, and by the Governor of the Bank of Israel, and members of the Council of the International Fiscal Association were received in audience by the President of the State of Israel, Mr Ben-Zvi.

The next Congress will take place in Athens in September 1962, and the 1963 Congress in Paris.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Limited, 151 Strand, London WC2

STATUTES

(9 & 10 Eliz. 2)

Chapter 55: Crown Estate Act, 1961

An Act to make new provision in place of the Crown Lands Acts, 1829 to 1936, as to the powers exercisable by the Crown Estate Commissioners for the management of the Crown Estate, to transfer to the management of the Minister of Works certain land of the Crown Estate in Regent's Park and extend or clarify the powers of that Minister in Regent's Park, to amend the Forestry (Transfer of Woods) Act, 1923, as it affects the Crown Estate, to amend the law as to escheated land, and for purposes connected therewith.

Price 1s 3d net.

July 27th, 1961.

Chapter 56: Credit-Sale Agreements (Scotland) Act, 1961

An Act to extend to Scotland sections one and three of the Hire-Purchase Act, 1938.

Price 3d net.

July 27th, 1961.

Chapter 57: Trusts (Scotland) Act, 1961

An Act to amend the law of Scotland relating to trusts.

Price 6d net.

July 27th, 1961.

Chapter 58: Crofters (Scotland) Act, 1961

An Act to make fresh provision with respect to the reorganization, development and regulation of crofting in the crofting counties of Scotland; to authorize the making of grants and loans for the development of agricultural production on crofts and on holdings comparable in value and extent to crofts; and for purposes connected with the matters aforesaid.

Price 2s net.

July 27th, 1961.

Chapter 59: Appropriation Act, 1961

An act to apply a sum out of the Consolidated Fund to the service of the year ending on the thirty-first day of March, one thousand nine hundred and sixty-two,

and to appropriate the supplies granted in this Session of Parliament.

Price 4s net.

August 3rd, 1961.

Chapter 60: Suicide Act, 1961

An Act to amend the law of England and Wales relating to suicide, and for purposes connected therewith.

Price 4d net.

August 3rd, 1961.

Chapter 61: Licensing Act, 1961

An Act to amend the Licensing Act, 1953, to make further provision about the sale and supply of intoxicating liquor and about licensed premises, and for purposes connected therewith.

Price 5s net.

August 3rd, 1961.

Chapter 62: Trustee Investments Act, 1961

An Act to make fresh provision with respect to investment by trustees and persons having the investment powers of trustees, and by local authorities, and for purposes connected therewith.

Price 1s 3d net.

August 3rd, 1961.

Chapter 63: Highways (Miscellaneous Provisions) Act, 1961

An Act to make certain amendments to the law relating to highways, streets and bridges in England and Wales.

Price 1s net.

August 3rd, 1961.

Chapter 64: Public Health Act, 1961

An Act to amend the provisions of the Public Health Act, 1936, relating to building bye-laws, to make such amendments of the law relating to public health and the functions of county councils and other local authorities as are commonly made in local Acts, to amend the law relating to trade effluents and to amend Section two hundred and forty-nine of the said Act of 1936.

Price 4s net.

August 3rd, 1961.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS HACKER, RUBENS & Co, Chartered Accountants, of 18 Maddox Street, London W1, and Messrs STUART YOUNG & Co, of 29A Wimpole Street, London W1, announce that they have amalgamated practices as from September 1st, 1961. The new firm will practise under the style of HACKER RUBENS, PHILLIPS & YOUNG, from offices at 76 Brook Street, London W1, the partners being Messrs J. B. RUBENS, M. L. PHILLIPS, S. YOUNG, T. A. MUNN and P. C. SUSSKIND.

MESSRS J. NICHOLSON & Co, Chartered Accountants, formerly of 340 High Street, Lincoln, announce that their address is now 67 Newland, Lincoln.

Appointments

Mr D. C. Wasdell, A.C.A., has been elected a member of the Birmingham Stock Exchange.

Mr Brian F. Collett, A.C.A., has been appointed chief accountant of the Colchester Lathe Co Ltd.

Mr G. W. Dawes, A.C.A., has been appointed a director of J. B. Westray & Co Ltd as from October 1st.

Mr J. R. Gledhill, A.C.A., has been appointed a director of Thomas Marshall & Co (Loxley) Ltd.

Mr L. C. H. Voss, F.C.A., chief accountant of Henry Wiggin & Co Ltd, has been appointed comptroller of International Nickel Co (Mond) and Henry Wiggin & Co Ltd.

Mr John Gordon Turner, B.A., F.C.A., has been appointed a director of The New Investment Co Ltd.

Mr E. Nicholson, F.C.A., has been appointed financial controller of the engineering group of The General Electric Co Ltd.

Mr Colin A. Crole, C.A., has accepted an invitation to join the board of The Scottish Union and National Insurance Co.

Lord Polwarth, T.D., M.A., C.A., has been appointed a deputy chairman of General Accident Fire and Life Assurance Corporation as from October 1st next.

Mr A. W. Giles, M.B.E., M.A., C.A., has been appointed a director of Inchcape & Co Ltd.

OBITUARY

Frank Walter Flint, F.C.A.

We have learned with regret of the death at his home in Nottingham on September 12th, following a long illness, of Mr Frank W. Flint, F.C.A., senior partner in

the firm of Boaler, Flint & Hunt, Chartered Accountants, of Nottingham.

Born in Nottingham in 1901, Mr Flint was articled to Mr Alan Boaler, F.C.A., and was admitted to membership of the former Society of Incorporated Accountants in 1924 and was elected to fellowship in 1938. He became a fellow of The Institute of Chartered Accountants in England and Wales in 1958 following integration.

RECEIVER APPOINTED FOR GUY MOTORS

Mr S. V. Lancaster, T.D., F.C.A., a partner in the firm of Howard Smith, Thompson & Co, Chartered Accountants, of Birmingham, has been appointed by Lloyds Bank as receiver and manager of Guy Motors Ltd.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Members' Library

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

- Building Contract Variations and Final Accounts; by G. Chrystal-Smith. 1961. (George Newnes, 35s.)
- The Building Societies Act, 1960; by J. Mills and R. Scott. 1961. (Stevens, 84s.)
- The City of London as a Centre of International Trade and Finance. (Institute of Bankers.) 1961. (I. of B., presented, 20s.)
- Cordery's Law relating to Solicitors; by —. Cordery: fifth edition by G. J. Graham-Green and D. S. Gordon: 1961. (Butterworths, 110s.)
- Equitable Payment: a general theory of work, differential payment, and individual progress; by E. Jaques. 1961. (Heinemann, 35s.)
- Essays on Accountancy; by A. C. Littleton. Urbana, Ill. 1961. (University of Illinois Press, 80s.)
- Financial Statement Analysis: principles and technique; by J. N. Myer: third edition. Englewood Cliffs, N.J. 1961. (Prentice-Hall, 58s 6d.)
- The Friendly Societies in England, 1815-1875; by P. H. J. H. Gosden. 1961. (Manchester University Press, 32s 6d.)
- Hire Purchase and Credit Sales; by W. D. Park: second edition. 1961. (Solicitors' Law Stationery Society, 12s 6d.)
- Hire Purchase in a Free Society; by R. Harris, Margot Naylor and A. Seldon: third edition. 1961. (Hutchinson, 30s.)
- History of Public Accounting in the United States; by J. D. Edwards. East Lansing, Michigan. 1960. (Michigan University, presented by Sir Russell Kettle, \$6.50.)
- History of the Society of Incorporated Accountants, 1885-1957; by A. A. Garrett. 1961. (O.U.P., 24s.)

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

- How I Made \$2,000,000 in the Stock Market; by N. Darvas. 1961. (Heinemann, 18s.)
- The Human Side of Enterprise; by D. McGregor. New York. 1960. (McGraw-Hill, 38s 6d.)
- Industry and Careers: a study of British Industries and the opportunities they offer; (edited) by D. E. Wheatley. 1961. (Liffé Books, 55s.)
- An Introduction to Public Administration; by E. N. Gladden. 1961. (Staples, 30s.)
- Launching and Managing O. and M.; by G. E. Milward. 1961. (Macmillan, 15s.)
- Mathematics in Your World; by K. Menninger: translated by P. S. Morrell and J. E. Blainey. 1961. (G. Bell, 21s.)
- Mathematics of Accounting; by A. B. Curtis and J. H. Cooper: fourth edition. 1961. (Prentice-Hall, 70s.)
- Paget's Law of Banking; by Sir J. Paget: sixth edition by M. Megrah. 1961. (Butterworths, presented by the publishers, 57s 6d.)
- Preparing the Annual Report; by Elizabeth R. Floyd. New York. 1960. (American Management Association, 40s.)
- Profit and Personality in Retailing; by L. M. Harris and U. M. Spencer. 1961. (Business Publications, 35s.)
- The Rationale of the Sterling Area; by A. R. Conan. 1961. (Macmillan, 21s.)
- Responsibility Reporting; edited by K. S. Axelson. New York. 1961. (Peat, Marwick, Mitchell & Co, presented.)
- Secretaries Journal Key to Company Law and practice; by T. Bolton and P. F. Hughes: second edition. [1961.] (Secretaries Journal, presented by the publishers, 15s.)
- The Shops Act, 1950 (being a fourth edition of Wilkinson's "The Shops Acts"): fourth edition by R. Davies (and G. M. Butts). 1961. (Solicitors' Law Stationery Society, 45s.)
- Stevenson's Book of Quotations classical and modern; by B. Stevenson: ninth edition. (1958). (Cassells, 105s.)
- Supermarketing; by F. J. Charvat. New York. 1961. (Macmillan, 48s 6d.)
- Taxation of Companies . . . ; by G. C. Sharma. Delhi. 1961. (Taxation, 52s.)
- The Theory and Measurement of Business Income; by E. O. Edwards and P. W. Bell. Berkeley, California. 1961. (University of California Press, 60s.)
- A Theory of Accounting to Investors; by G. J. Staibus. Berkeley, California. 1961. (University of California Press, 32s.)
- Uniform Cost Accounting and the classification and coding of accounts; by K. S. Most. 1961. (Gee, presented, 30s.)

Accounts Manuals and Codes

At a conference of the London and District Society of Chartered Accountants held in Brighton in November last, Mr Brian A. Maynard, M.A., F.C.A., in his lecture on 'Accounts codes' (*The Accountant*, March 25th, 1961) commented that there was great scope for improvement in the general standard of accounts codes; that there was a demand among members of the profession for details of other people's achievements in this respect; and that many members working with organizations which operate accounts codes of a certain standard would be willing to provide copies for the Institute Library.

His observations received strong support from the conference as a whole. A considerable number of

members representing companies which already operated reasonably good accounts codes indicated their willingness to submit copies to the Institute although there were, of course, many members who frankly admitted that their codes were poor and a minority who were operating in intensely competitive industries comprising a small number of units who, for competitive reasons, would not be willing to submit their codes.

The Institute Library already has a number of accounting manuals, including accounts codes, and as far as possible two copies of each, one for reference and one for lending, are kept.

The Library Committee feels that it would be invaluable to increase the number of manuals and codes available for reference and members and firms are invited to place copies of their own manuals or codes in the library so that they may be utilized for study and as a permanent record of developments in this field. It is hoped that whenever possible two copies will be presented.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the Executive Committee the chair was taken by Mr F. J. B. Gardner, F.C.A., in the absence of the President, and seven members were present.

Applications for Assistance

Seven new applications for assistance were considered; in four cases a grant was made; in two cases a donation was given; one case was deferred pending further inquiries.

One of the new cases considered by the Committee followed the sudden death of a member at the early age of 37, due to a coronary, leaving a widow and two sons aged 7 and 3. Apart from their house which is subject to a mortgage, their only income is the widowed mother's allowance and about £50 per annum from investments. A grant of £220 per annum for one year was made.

Applications for Further Assistance

Sixteen cases for further assistance were considered. In ten cases the grant was renewed and in six cases the grant was reduced owing to improved circumstances.

Special Fund

One new application for assistance was considered and a grant was made. One application for further assistance was considered and the grant renewed.

Matters Reported

The honorary secretary reported changes in circumstances in six cases; in two cases he was pleased to report that circumstances had improved to make assistance no longer necessary; in four cases grants were adjusted or donations made.

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CITY DISCUSSION GROUP

The first meeting of the 1961-62 session of the City Discussion Group of the London and District Society of Chartered Accountants will take place on October 11th at 6 o'clock for 6.30 p.m. at the Tiger Tavern, 1 Tower Hill, London EC3, when Mr J. D. Bailey, B.A., F.C.A., a member of the Group, will introduce the first discussion of the season. New members will be welcome.

The hon. secretary of the group is Mr D. S. Lewis, A.C.A., A.A.C.C.A., c/o Alex. Parkes, Westmacott & Co, 3 Copthall Buildings, Copthall Avenue, London EC2. Telephone: Monarch 7321.

DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS

The annual golf competitions of the Dublin Society of Chartered Accountants were held at the Grange Golf Club, Rathfarnham, on September 11th. The entry of over one hundred players was a record for these competitions.

The prize-winners were as follows:

Past Students' Cup: R. Carroll (6), 4 up. Runner-up: D. P. Whelan (9), 2 up. Third prize: J. Kennedy (8), 1 up.

Visitors' Prize: A. F. Bennett (17), 2 up.

Fourball: C. D. Shannon (8) and J. Love (18), 8 up; M. O'Kelly (9) and B. Colivet (16), 7 up (after a tie with L. G. Andrews (8) and G. Monahan (15)).

The Chairman of the Society, Mr C. Garrett Walker, F.C.A., presided at the subsequent dinner.

CERTIFIED ACCOUNTANTS' JUBILEE GOLF TROPHY

The final round in the 1961 competition for the Certified Accountants' Jubilee Golf Trophy was played at Folkestone on September 16th, and Mr A. L. Farey, of Barnet, Herts, was the winner with a net score of 68. At the dinner held at the Grand Hotel, Folkestone, the same evening, the trophy and a miniature replica were presented to the winner by Mr G. L. Barker, F.A.C.C.A., President of the Association.

**THE INSTITUTE OF INTERNAL AUDITORS
Yorkshire Chapter**

A meeting of the Yorkshire Chapter of The Institute of Internal Auditors will be held at the Guildford Hotel, Leeds, on Tuesday next, commencing at 7 p.m., when the speaker will be Mr W. J. Smith, Chief Internal Auditor of British Overseas Airways Corporation, who will be speaking on 'Budgeting for internal audit'.

INVESTMENT IN DEVELOPING COUNTRIES

The Federal Trust for Education and Research, in conjunction with the British Institute of International and Comparative Law and the Institute of Advanced Legal Studies, is holding a two-day conference at the Waldorf Hotel, Aldwych, London WC2, on September 28th and 29th. The conference is entitled the 'Encouragement and protection of investment in developing countries', and included among the chairmen of sessions and speakers are The Rt Hon. Lord McNair, The Rt Hon. Lord Shawcross, The Rt Hon. A. Creech Jones, P.C., M.P., Sir Duncan Cumming, Mr F. J. Pedler, Mr William Clark and a representative from the International Finance Corporation. Further information may be obtained from the Federal Trust, 10 Wyndham Place, London W1.

PRODUCTION CONTROL IN THE FURNITURE INDUSTRY

Does the constant changing of designs to create demand cause an increase in production costs or does standardization on one type of furniture hamper the salesman? At a conference in London next month furniture manufacturers will have an opportunity to discuss the effect of a variety of lines on production costs.

The conference, organized by the Furniture Development Council, will take place on October 17th and 18th, and addresses will be given on design, costing, stores control and production control.

Applications to join the course should be addressed to the Furniture Development Council, 11 Adelphi Terrace, Robert Street, London WC2.

ECONOMIC CONDITIONS OVERSEAS

Four new surveys in the 1961 series dealing with economic conditions in member and associated countries of the Organization for European Economic Co-operation have recently been issued. The booklets, each priced 3s and obtainable from H.M. Stationery Office, give comprehensive analyses of economic conditions in France, Norway, Portugal and Turkey.

CORRECTION

In some copies of last week's issue, owing to incorrect information received, it was erroneously stated in the report of the meetings of the Council of the Irish Institute on August 31st, that the death had occurred of Mr J. D. O'Leary, of Cork. The reference should, however, have been to Mr J. R. O'Leary. Although a correction was made as soon as we heard of the mistake in the original draft report, some copies had already been printed, and we regret any embarrassment Mr J. D. O'Leary may in consequence have been caused.

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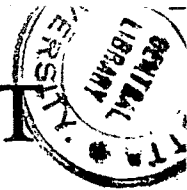
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Capital Employment

SPEAKING at a conference organized by the British Institute of Management at the end of May 1961, SIR RICHARD POWELL, Permanent Secretary to the Board of Trade, said: 'In determining investment policy - for the country or for individual firms - it must always be borne in mind that unless we can secure greater exports and bring our external payments into better balance, we cannot afford the flourishing home market which produces the most profitable return on capital. Investment in the less immediate attractive propositions might turn out to be in the best interests of country and company in the long run.' This remark provides a fitting background to the paper on 'The employment of capital' which was presented by MR J. C. WALKER, F.C.A., chief accountant, Unilever Ltd, to the recent Summer Course at Cambridge of The Institute of Chartered Accountants in England and Wales.

In this paper (the first part of which is reproduced in this issue), MR WALKER is primarily concerned with the ways in which employment of capital can be judged as good or bad. But accountants should also consider the principles involved in choosing to employ capital in alternative ways. Without attempting to discuss the manner in which capital grows or the economic circumstances necessary to the process of growth - matters which are more appropriate to our journalistic colleagues - it is well within the province of accountants to try to clarify their minds as to the considerations which should be applied in deciding to invest capital in a particular project. A superficial reading of MR WALKER's paper might suggest that maximum immediate profit to provide a fat return on capital is the only consideration - though MR WALKER made it clear from the platform in Cambridge that he held no such narrow view. In fact, MR WALKER was deliberately talking of the use of a particular management tool in business enterprises. SIR RICHARD POWELL, on the other hand, was speaking from a Governmental point of view. There is presumably a community of interest between the public and private sectors and this is what accountants may be able to promote.

The non-Communist countries are admittedly capitalist ones and should object to nothing in that title other than the overtones of the propagandist. At the same time it is avowed Communist policy to prove to the world that the capitalist system is inherently inefficient and contains within itself the seeds of its own destruction. It must, presumably, be non-Communist policy to prove that this is not the case. Yet the evidence is not altogether encouraging: progress there certainly is behind the Iron Curtain and often at a

rate which leaves the capitalist countries gasping. On the other hand Great Britain, in particular, seems in the post-war years to have missed many opportunities for genuine expansion and to have progressed irregularly and unsatisfactorily in relation to other western countries. Could this be anything to do with the use to which capital in Britain has often been put?

Freedom must always entail responsibility, and this applies as much to freedom to use capital as one chooses as to any other freedom. 'Planned' economies by definition restrict freedom in the use of capital, and if the planning is good – which is not necessarily the case – much of the responsibility for choosing correct outlets for the employment of capital is shifted from private individuals and corporations to Government offices. In general, the owners of capital do not much like this shift of responsibility, but they should be clear that the means of insuring against it are in their own hands.

It is obviously very difficult for the accountant to advise the business man to give public interest a higher rating than personal profit. Indeed, it is no part of the capitalist system to do so. But though it might have been doubtful in certain periods of British history whether the public and private interests were in line – the ready acceptance of a considerable degree of planning and control in the economy from the start of the Second World War was evidence of this – there can be no doubt now. On the level of world politics a strong western economy, able to stand up to economic attack from the Communist countries, is essential; at Commonwealth level a strong pound and a buoyant United Kingdom market is essential to the survival of the unique experiment represented by the formation of the Commonwealth; while the immediate standard of living of the inhabitants of Great Britain could be at risk if the economy loses out in the fusion of European economies in the Common Market. For success at all these levels a responsible use of capital is essential. A pure and short-sighted seeking after maximum immediate profit may not be enough – though this is not to say that the profit motive itself is out of date or inadequate to the task at hand. Unilever, as MR WALKER shows, with an annual budget that would be the envy of some of the smaller States of the world,

obviously is not short-sighted, nor is it parochial, British, European or anything less than world-wide in its approach. The same cannot be said of all businesses in the United Kingdom.

There are certainly millions of pounds of capital which are failing to earn their keep; there are many more millions which are being used half-heartedly by businesses to finance activities about which the managements do not pretend to have expert knowledge, such as property holding, general investment, etc. The mechanism of the take-over bid has nibbled at this hoard without getting near to exhausting it; it is probable that private companies, which are well protected from bids and from the Estate Duty Office through the sound advice of their accountants, are the worst offenders.

If these millions could be unlocked and devoted, on a fully profitable basis, to business activities which would help the economy of the country to develop more quickly and more regularly than it has done in the past, the immediate economic problems would be quickly solved. In particular, the released capital would become available for re-equipment of factories, whose plant at the moment often puts them at a competitive disadvantage from the start; and for imaginative development of export possibilities in Europe and the rest of the world. Business men in Britain are sometimes too ready to excuse themselves on the grounds that post-war re-equipment was less obviously subsidized than that of Germany, Japan and other countries, and that no special prizes – apart from national survival at a satisfactory standard of living – are offered to the energetic exporter.

Here is a field in which the accountant can be very powerful and for which he is excellently equipped; if he is able to contribute significantly to the solution of the problem of putting the available capital of the country to the best use he will earn the respect and thanks of Governments here and abroad and, which is perhaps even more acceptable, the gratitude of the people at large who are tired of recurrent crises, short-time working, 'little' or any other Budgets more than once a year, and a Government economic policy which has as much pattern about it as a game of Bingo.

Tax Relief for Losses

An Appraisal of the Statutory Provisions

by T. J. SOPHIAN

CERTAIN alterations were made by the Finance Act, 1960, with regard to tax reliefs in respect of losses suffered in a trade, business or profession. The material provisions are contained in Section 20 of the Act. In addition, the principal statutory provisions are contained in Sections 142, 341 and 342 of the Income Tax Act, 1952.

The law on this subject is of a somewhat complex character and an examination of the effect of these sections may be of some advantage. The changes introduced by the 1960 Act affect trades, businesses and professions newly set up after April 6th, 1960, so that it is necessary to bear in mind the distinction between the law obtaining before and that obtaining since the amendments were introduced. It may be convenient to consider each of the relevant sections, separately.

Section 142

The relief granted by Section 142 is in the nature of a set-off which can be applied against the profits earned by a different trade etc. carried on by the taxpayer. According to the material terms of this section a person carrying on, whether solely or in partnership, two or more distinct trades etc. may set off against the Schedule D profits of one or more such trades the loss sustained in any other trade. This relief extends equally to any profession or vocation of the taxpayer so that a balance may be struck not only as between trades, but also as between trades and professions or vocations of the taxpayer.

There are other points to be emphasized in relation to Section 142 relief. It may be applied as between husband and wife, a husband being entitled to set off against his own Schedule D profits the losses incurred by his wife in carrying on some other Schedule D activity, such as a trade or profession.

Losses may not, however, be set off against any other income. The activities between which the set-off is to operate must be such as would be assessable under Schedule D, i.e. trades, businesses, or professions. Furthermore, the profit and the loss between which the set-off is to operate must be earned and suffered respectively in the

same year. The relief, if it is to be claimed, must be claimed before the relevant assessment or assessments is, or are, made.

Finance Act, 1960, Section 20

It is in relation to Section 142 relief that Section 20 of the Finance Act, 1960, has made important alterations, these alterations being designed to put a stop to certain forms of tax avoidance to which Section 142 lent itself where a new business was commenced.

In order to understand the scheme of such tax avoidance, it is necessary to refer to the commencement provisions contained in Sections 128 and 129 of the Income Tax Act, 1952. In the case of a new trade etc. the assessments for the first three years will be made on the following basis:

For year 1, the assessment will be on the basis of the profits (or losses) during the period from the date of the commencement of the business till April 6th following. If, therefore, a business is commenced after the current financial year has started, the assessment would have to be made on less than a year's trading.

EXAMPLE

A business is commenced on August 1st, 1957. During the period from that date till April 6th, 1958, the actual profits are £400. Accordingly for the first year of assessment 1957-58 and also the year of commencement, the assessable profits will be £400.

For year 2 (1958-59), the assessment will be made on the profits (or losses) of the first complete year of trading.

EXAMPLE

Taking the above example, suppose now that for the further period April 6th, 1958, to July 31st, 1958 (i.e. the remainder of the first full year of trading), a further £700 profit is made, the assessment for the second year, 1958-59, will be on the basis of £400 + £700 = £1,100, which is the total profit made during the first complete year of trading (not financial year), i.e. August 1st, 1957, to July 31st, 1958.

For year 3 (1959-60), the taxpayer has an

option. In the normal way he would be assessable for year 3 on the profits (or losses) during the previous accounting year ending July 31st, 1958, those profits amounting to £1,100 in the above case.

EXAMPLE

Taking again the previous example, the business made a profit of £1,100 from August 1st, 1957, to July 31st, 1958. Assume now that during the next accounting period from July 31st, 1958, to July 31st, 1959, the total profit made was £1,700. In the normal way, if the option (referred to below) was not exercised the assessable profit for 1959-60 would still be £1,100, and not the actual amount (£1,700) made during the accounting year 1958-59, and the figure of £1,100 would be the basis of the assessment for the year 1959-60. The same rule would apply if there had been a loss.

The Option

To deal now with the option which the taxpayer would be entitled to exercise in such circumstances. The taxpayer enjoys the option of being assessed in respect of years 2 and 3 on the basis of the actual profits (or losses) during those accounting years. The option, if exercised, it should be noted, must be exercised in respect of both years and not in respect of one of them only.

In this connection, it is perhaps useful to state the exact language of Section 129 (1) of the Income Tax Act, 1952. 'The second year of assessment' is defined as the year next after the year in which the trade etc. was set up or commenced; and the third year as the next but one after the year of assessment in which the trade etc. was commenced.

In the previous example, the trade was commenced on August 1st, 1957. Accordingly, the first year of assessment would be 1957-58, the second year 1958-59, and the third year 1959-60.

Thus, in the ordinary way, and provided that the Commissioners do not require the profits (or losses) to be averaged out (see Section 128 (1) of the 1952 Act), the assessments would be:

First year	1957-58	..	..	..	£ 400
Second year	1958-59	..	..	..	1,100
Third year	1959-60	..	..	..	1,100

If, however, the taxpayer exercises his option under Section 129 (2) he would be entitled to have his assessment made for the second year 1958-59 and the third year 1959-60, on the basis of the actual profits (or losses) in each of those years, so that the amount of the assessments will

be whatever happens to be the amount of the actual profits (or losses) of the years in question, and taking the foregoing example again, some other figures than £1,100 as profit in each of those years will have to be substituted. If there is a loss instead of a profit, the loss will be treated in the same way. The non-exercise of this option, however, may produce a benefit particularly where there are losses.

EXAMPLE

Trade I has been carried on for a number of years.
Trade II commenced on July 1st, 1957.

Accounting Year	Trade I	Trade II	Assessment
1957-58	+ £3,000 profit	- £2,000 loss for period July 1957 to March 1958	£1,000 (£3,000 - £2,000)
1958-59	+ £5,000 profit	- £3,000 loss during first complete trading year July 1957 to July 1958	£2,000 (£5,000 - £3,000)
1959-60	+ £6,000 profit	+ £1,000 profit (actual profit)	
If the taxpayer does not exercise the option then there will be in respect of Trade II a notional loss for 1959-60		Notional loss - £3,000	£3,000 (£6,000 - notional loss of £3,000)
And the assessment would accordingly be			

The taxpayer, therefore, would be utilizing his loss of £2,000 for the first year, not only in 1957-58 but also in 1958-59 in which year he would be utilizing an extra £1,000 by way of loss, and finally in 1959-60 he would be utilizing the £3,000 loss once again, notwithstanding that in 1959-60 he actually made a profit of £1,000.

It was to meet such a situation that Section 20 (8) of the Finance Act, 1960, was enacted. This subsection abolishes, in effect, Section 142 relief for all accounting periods ending after April 5th, 1960. As the relief, however, can still be claimed in respect of earlier accounting periods, the nature of the relief and the advantages or disadvantages of exercising the option must still be carefully borne in mind.

The repeal of Section 142, nevertheless, does not deprive the taxpayer of other reliefs which according to the circumstances can be claimed.

Relief Under Sections 341 and 342

Under Section 341 of the Income Tax Act, 1952, a loss may be set off, unlike Section 142, against taxable income of any sort - such as unearned income, for instance - and is not required to be set off only against the profits of a trade etc.

There is the further point to note, that the loss may be set off even against the income of the wife of the taxpayer whether earned or unearned.

The income of both the husband and the wife must, as it were, be 'marshalled' for this purpose and the loss will be set off against such income in the following order:

- (1) other earned income of the taxpayer;
- (2) unearned income of the taxpayer;
- (3) earned income of the wife;
- (4) unearned income of the wife.

(See Section 15 (1), Finance Act, 1953.)

In this case as well the taxpayer is given an election, though of a different kind from that conferred by Section 142: the taxpayer may require that no part of his loss should be set off against any part of his wife's income. (Section 15 (2), Finance Act, 1953.)

In calculating the amount of the loss for the above purposes, the taxpayer would be entitled to add thereto any unrelieved balances of capital allowances, such as the investment or initial allowances for machinery and plant and the like. (Section 20 of the Finance Act, 1954.)

Relief is given under Section 341 by adjustment of liability for the particular year of assessment. If the loss cannot be wholly relieved in the year in question, the balance can be carried forward to

the next, and if necessary to subsequent years, under Section 342 of the 1952 Act.

Where, however, there is such a carry forward under Section 342, the unrelieved balance must be set off against the next available profits of the same trade in which the loss occurred, for the next and if necessary subsequent years. There is no time limit apparently as to the period over which there may be such a carry forward.

If, in any year of assessment, relief cannot or cannot wholly be given by set off against the next available profits made by the same business, relief may next be given according to the circumstances by way of set off against any interest or dividends, which would fall to be taken into account as trading receipts of the trade etc. but for the fact that tax had been deducted at the source from them (Section 341 (4)).

Finally, in determining the amount of the loss for the purpose of the application of Section 342 relief, account must be taken of, and the amount of the losses must be increased by, the amount of any assessment made on the taxpayer, in respect of tax deducted by him from interest or royalties or other annual sums paid by him wholly and exclusively for the purpose of the trade etc. otherwise than out of a fixed fund, and in respect of which tax he would accordingly be accountable to the Revenue under Section 170 of the Income Tax Act, 1952.

The Employment of Capital—I

by J. C. WALKER, F.C.A.
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Introduction

THE title is so wide as to give enough scope to write a very large book rather than a paper to provide the basis for discussion for a mere few hours. I have decided, therefore, to take as my main theme yields on capital employed, looked at mainly from an internal point of view, that is as part of commercial management, rather than from the point of view of the outsider, e.g. the shareholder or Stock Exchange. To this, I have added comments on subjects which have some direct bearing on the main theme.

2. I have taken as my background a group of companies engaged in manufacturing and marketing a wide variety of products, in countries throughout the world, and working mainly through locally registered subsidiary companies. Many of these will be wholly

owned but in some there will be local shareholder participation. In addition to retention of profits, other finance, including that from third parties, may be provided by long-term and by short-term borrowing, such as bank overdrafts.

3. At the outset let me say that accountants have a part to play in helping to ensure that as far as possible:

- (a) Yardsticks (or methods of measurement) of return on capital employed are devised and developed to assist commercial judgment.
- (b) Available funds are deployed where they can bring in the maximum return which is commensurate with reasonable commercial risk and business growth.
- (c) There is a continuous review of how and where money is deployed, to ensure that a proper return continues to be achieved, and when it is not, management will quickly be made aware of the fact.

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4. But also let it be stated at the outset that:

- (a) I do not believe yardsticks are likely to be more than broad guides; they cannot be wholly accurate – they need to be used as one of the aids and not a precise rule.
- (b) The methods suitable to a particular company or set of circumstances must be tailored to the needs of that company or situation. What I say in the paper has the general background described above but, even so, it is only illustrative of an approach and is meant to be no more.
- (c) Usually, management needs to be convinced of the use to them of yield ratios to help earn profits. Generally, over-complicated methods are likely to make management suspicious of the value of adopting them, whereas ultra-simplicity may make such ratios worthless.

5. As this is being written, raw materials that have been mined or harvested and perhaps transported across the seas are entering factories all over the world, to be turned into the immense range of manufactured articles to support life and leisure in modern society. Here is a vast complex of human activity, of physical things happening, controlled and directed by management. The problem confronting management in this situation is to select from a variety of information the key facts that it needs to maintain efficiency and make intelligent decisions about the future. The accountant in industry is well placed, by reason of his background and training, to provide an information service of key facts and forecasts and, if he is of the right calibre, to use this information as a member of the management team. The attributes he may bring to this task from his professional training are many, but in my view probably none is of more distinctive value than his ability to see that the effectiveness of a business ultimately depends not solely on an absolute measure of profits but on profits related to other factors, e.g. turnover, employees, capital. It is a simple truism to say 'we invest money where we hope to make money'. Clearly, therefore, the relationship of what we make to what we invest is of vital importance in the conduct of business.

6. You may consider this just an elementary truth that to a gathering of accountants is hardly worth considering. If so, I disagree. Experience teaches that it is all too easily overlooked, both in the formation of business policy and in the conduct of

arguments on economic subjects in the Press and elsewhere. An example can be found in the Report of the Select Committee on Nationalized Industries, published just over a year ago. The amount of consideration given by the railways to the profitability of new investment in railway modernization and to the comparative merits of alternative schemes was severely criticized. How often has each of us met a case where one of a team has supported this or that project on the grounds of his own preferences and inclinations rather than dispassionate logic. Another example might be the support given for continuing existing operations to secure one kind of benefit (e.g. contribution towards fixed costs) without regard to the capital or management involved, which might be used more profitably elsewhere. This is not to say that in business exercising imagination and acting on a hunch are to be avoided; rather that we should do this after taking account of known or readily available facts.



Mr J. C. Walker

7. These remarks are intended only to draw attention to the importance of the employment of capital, particularly before it is committed. It will be clear to all those at the Summer Course that capital is an essential part of almost every business enterprise. Some, such as the railways, have a far greater problem of capital intensity than others, e.g. industries based on fashion. While I hope my remarks will be of wide application, they are bound to draw particularly on my recent experiences as chief accountant of a widely diverse and international group of companies, concerned to a large extent in the production and sale of consumer goods.

The Meaning of Employment of Capital

8. The terms 'capital employed' and 'employment of capital' are often loosely used to convey the same meaning. Generally, my experience has been that when strictly applied 'capital employed' is the term used to describe finance used in a business (shareholders' funds, loans, future taxation), whilst 'employment of capital' describes how this finance is put to use in the ownership of assets.

9. In this paper I shall be talking about the employment of capital – that is to say, most of my remarks will be concerned with what appears on the asset side (or section) of the balance sheet, but I shall refer to this as capital employed (using the term in its loose sense) because this is a less cumbersome description.

Why is it Necessary to Measure Capital Employed?

10. An equity shareholder is induced to subscribe money to a company or to acquiesce in the retention of profits already earned because he sees possible growth leading to future profits sufficient to outweigh the risk inherent in the enterprise. Among the measures he uses, no doubt, are the present and prospective earnings and dividend yields on the current value of his investments. Maybe he will examine the yield on the published net assets value of his investment. If he is knowledgeable he will recognize the shortcomings of this measure, but how many do?

11. These funds supplied by shareholders, supplemented by funds derived from borrowings, delays in paying the tax gatherer, and so on, represent one of the major resources placed at the disposal of a business. Its management will expend these funds primarily on the acquisition of assets in order to earn profits. As the investment of these resources is one of the major factors in the success or failure of an enterprise we ought to know the extent and current value of the assets owned.

12. The management of a business is in a position to adopt many useful yardsticks in measuring performance in the use of its resources - e.g. sales volume, total profit, profit per unit of sale, profit as a percentage of sales proceeds, sales and profit per employee. But profit expressed as a yield on capital employed, properly assessed, usually means more than these, because it takes one of the major resources made available to the business, that is, capital, and measures the effectiveness of the use management has made of that capital investment in earning profit. To express this yield, the capital employed from period to period in earning the profit must be measured and stated in terms comparable to those used in measuring and stating the profit itself; otherwise the yield will mean little or nothing and soon fall into disrepute with a lively management. Businesses yielding high returns are not necessarily the most successful. This depends on a number of factors, such as the consistency with which the yield has been earned and the risks judged to exist in that type of business. In conditions of equal risk in established businesses a high yield indicates prima facie a more efficient use of capital, and other resources in conjunction with capital, than a low yield. On the other hand, a high yield may indicate an unduly restrictive attitude towards the investment of funds for expansion, resulting in static profits.

13. At this level of generality there is hardly room for argument, but difficulties lie in wait. How do we measure capital employed? What profit do we relate to it to calculate your yield? When we know what the yield is, what use can we make of it?

How is Capital Employed Measured?

14. The regular reporting of capital employed and yield by each unit of a group is, I believe, an essential part of the control of the enterprise as a whole. I shall explain this more fully later. In reporting, two different concepts of capital employed must be distinguished:

- (a) The first, of which the more widespread use can usually be made, is the gross capital employed. By this, I mean the whole of the assets employed in a business, irrespective of the way they are financed.
- (b) The second, which I will call group capital employed, takes gross capital employed as its starting-point, takes into account any other assets and liabilities of the business and excludes from the total that part financed from outside the group - for example, by third party equity shareholders and outside borrowing. Group capital employed, therefore, comprises that part of the assets financed from within the group, e.g. in a single company operation it would represent the shareholders' total interest.

15. Gross capital employed should include all fixed and working assets, such as land, buildings, plant, machinery, motor vehicles, shipping, plantations, stock and debtors less creditors, actually in use for the purpose of the trade. It is important, if the concept is to be accepted by the unit operating management, to ensure that assets which, due to no fault of local management, are not directly in use in the particular business are excluded, e.g. a factory or large unit of plant which has ceased to be used, and is to be sold or scrapped. Trade investments held simply as investments, even though contributing in some small manner as a source of supply, or avenue of sale, should also be excluded, as the operations of the company concerned are generally not directly in the control of the management of the owner company. If they are, then its capital employed should be considered either as a part of the group, or as a separate unit to which are separately applied the appropriate overall measures, including yields on capital employed.

16. You will notice that in considering items of working capital to be included in gross capital employed I have omitted cash, bank overdrafts and the current liability to taxation. I have taken as my background to this paper 'a group of companies operating in countries throughout the world' and I have in mind a highly decentralized concern. Even so, I believe it is usual for the management of cash resources to be highly centralized. In the United Kingdom, for instance, it is possible to operate automatic pooling of funds each night, which can automatically remove cash from operating units. Quite apart from this, the disposition of cash reserves is likely to be influenced more by the strategy of centralized cash management and by exchange

control regulations than by the particular working requirements of each subsidiary company. Thus, in the conditions I envisage, cash resources are not wholly under the control of local managements. In many instances of which I have had experience, they have not complete responsibility for the level at which cash is held. It is against this background that I believe cash and bank overdrafts should be omitted from the calculation of gross capital employed. On the other hand, where local unit managements are responsible for their own finance, it could well be appropriate to include these two items, and those of a similar nature, e.g. cash investments, in the figure of gross capital employed.

17. Omitting to deduct current taxation liability is perhaps likely to raise more doubts than the omission of cash. I take the view that in normal circumstances cash would be accumulating to settle a company's tax liability, and as all cash is omitted from gross capital employed, there is, *prima facie*, a case to omit the current tax liability. In addition, the tax liability can be affected by such items as initial allowances, pioneer status and the actual date of payment as against the legal date. Also, consider the differences in the method and timing of assessing and paying tax, e.g. the practice in the United Kingdom compared with that in the U.S.A. and many other countries, where payments are made during the year on account of the liability to be assessed later on the profits of the year. In a group operating in one country it might be appropriate to take the tax liability into account in calculating the gross capital employed; in such a group there would be less likelihood that the capital employed by separate divisions of the business would differ fundamentally in make-up because of differences in tax arrangements.

18. On what basis of valuation should assets be included in the gross capital employed? There is usually no question about working assets. It is usually sufficient to include these at the figure carried in the records. If, however, stocks are carried on an artificial basis, such as a base stock method, it may be appropriate to adjust them to current value. Fixed assets, on the other hand, present a different problem. They are usually carried in the books at historical cost or at a valuation made some years previously. The income which is to be related to them will, by and large, be at current value, and therefore I believe assets should be brought into the calculation at their current replacement value. I favour a gross estimated replacement cost, less depreciation according to age. This basis seems to me to give a figure which has some relevance to actualities, although it is open to the criticism that the assets concerned would probably never be replaced in their current form due to technological change, change of fashion, new thoughts on location, and so on. It is as well to emphasize again that a yield on gross capital employed can only be a broad measure and is just one aid which may be useful to

management. Depending, therefore, on the use to which it is to be put, about which I will say something later, there is no point in carrying the exercise to such fine degrees as to cause excessive work and cost. Arguments can be adduced for inclusion of fixed assets at full current replacement cost, on the grounds that so long as the asset is serving its purpose efficiently the writing-off of depreciation is a financial exercise that should not enter into measures of this kind. For example, an aeroplane, I believe, is just as efficient at the end of two years as when it first flew! This example deliberately raises the question of technological change and illustrates the probability that no method of stating fixed assets for inclusion in gross capital employed is free of criticism. Technological change, cost of repairs, speed of output, changes of material, and so on, all influence me towards the use of a net replacement value as a practical basis for this purpose.

19. I do not feel there is usually a great need to tie the calculation of replacement cost to any specific formula, so long as one basis is used consistently, from year to year and is used throughout the units in any one country. No result will be much more than an inspired guess—at the best, correct for only a very short period. Indemnity values of assets as assessed for insurance purposes, or the application of indices of cost, are two popular methods. Both usually ignore technological change and obsolescence. I deal with revaluation of fixed assets in more detail later.

20. Another difficulty in measuring gross capital employed, as I have defined it, is to decide upon the dates at which the measurement is to take place. The situation of a business at the balance sheet date may be quite inadequate to convey a picture of the capital employed in it over a year. Should one look at the position at the beginning or at the end of the year or at some other point of time? So far as fixed assets are concerned, in the absence of any major programme of capital work, the difference is only likely to be small, but there may be very wide fluctuations in working capital, especially in seasonal businesses. There is no special technique for overcoming this difficulty but I believe that, for many businesses, taking an average of the positions at different dates during the year (e.g. at the end of each of the four quarters) gives an answer that is likely to be fair and reasonable.

21. A further difficulty that arises in the assessment of capital employed is the treatment of goodwill. If a company buys an outside business and has to pay more than the current net value of the assets, how should the excess be treated in calculations of capital employed? Perhaps you consider it should be included in all such calculations. Certainly when one has just paid a good fat price for a business there seems some common sense in this view. On the other hand, in a large group built up partly through mergers

and the acquisition of other companies, goodwill will have arisen in countless different ways, and will perhaps have been written off in the books and extinguished from the thoughts of the directors.

22. Furthermore, what of the goodwill build up as a result of normal operations, upon which no value can readily be set? These considerations have led me to the conclusion that, in general, goodwill should be excluded from capital employed. Certainly, I believe it should not readily be included in calculating *gross* capital employed because this concept is intended as a guide in judging how efficiently a group of physical assets, from which as far as practicable all anomalies of valuation are excluded, is being employed to earn profits. In calculating *group* capital employed, however, goodwill of recently acquired businesses should be included. I believe it is reasonable to remind oneself that the ultimate yield to the group is based on profits flowing from assets bought at a premium. For how long you include the premium depends on the circumstances, but I would guess a minimum period would be three years, by which time the make-up of the business is probably beginning to change.

What Profit should be Related to Capital Employed?

23. Naturally the profit related to gross capital employed must be the profit earned by the assets included therein. In the main, this means that the profit is struck before deducting financial items such as interest (bank and loan) or deducting third party share of profits. But, more important, it should be after deducting depreciation calculated on the basis of current replacement values. This figure of depreciation, of course, is subject to the disadvantages inherent in the use of a straight replacement basis of valuation, but these disadvantages are unlikely to have a vital effect on the yield of any one year, or perhaps more important, so long as it is consistently used, on the trend of yields developed over several years.

24. The treatment of taxation presents difficulties. It might be thought fair not to deduct taxation when looking at profits related to gross capital employed, on the grounds that the ratio is a measurement of the effectiveness with which managements use their assets to earn trading profits, and taxation is not a factor within their control. However, widely differing levels of taxation have an important influence when central management is considering yields in different countries. Furthermore, I believe that it is vitally important for local managements to be conscious of the level of taxation and I therefore believe it to be right to deduct tax from profit in all yield calculations. This view is supported if you consider methods of raising revenue in different countries. One will use mainly direct taxation; another will concentrate on indirect taxes. If you follow the normal English convention the former is an appropriation of profits,

the latter a charge in arriving at the profits. Fundamentally they are the same, in that they supply funds for the running of the country. Therefore, in the ultimate, one must have regard to the profits that can be transferred to the parent company. If these profits are earned overseas, even though there is usually a right to set off local taxes against the United Kingdom liability, the amount received by the parent company is the net amount after local tax.

25. The next difficulty is – how much tax to deduct? Actual taxes payable are not really suitable because they are charged on the whole of the profit, not merely the trading profit, and because they may be widely affected by the irregular incidence of tax allowances. Furthermore, taxes may vary to the extent that the parent company either withdraws profits in the form of dividends or permits their retention. I therefore suggest the device which we call statistical tax. This is a broad measurement of all taxes levied on profits in the country of operation before the profits can leave that country – income tax, profits tax, distribution tax – expressed as a percentage figure, exclusive of capital allowances. For example, in the United Kingdom at the moment statistical tax is 53.75 per cent – that is, income tax at 7s 9d in the £ and profits tax at 15 per cent. Statistical tax is a useful way of conveying approximate levels of direct taxation in different countries, and for the purpose of calculating yield on gross capital employed it is applied to trading profit without adjustments of any kind: a broad method of bringing all units on to the same net trading basis. The implications of capital allowances, pioneer relief, etc., are usually outside the direct control of the unit management and are thus not usually relevant to the consideration of overall trading results. The underlying principle is simplicity, following the basic thought that the yield on gross capital employed is an aid available to management but cannot be more than an overall guide, to be used with caution and in conjunction with other information about the state of the business.

26. It will be obvious to all the members of the Summer Course that taxation relief, in the form of pioneer status, capital allowances, etc., has an extremely important bearing upon ultimate net disposable profit. Care must therefore be taken that in adopting the concept of statistical tax for calculating yield on gross capital employed, managements are not encouraged to ignore tax benefits. One way to safeguard against this is to use actual taxes payable in respect of the period when calculating the yield on *group* capital employed.

27. In calculating the yield on group capital employed the profits must naturally be those attributable to the group. The starting-point here is the net profit as shown in the normal financial accounts; that is, after deducting all interest (bank and loan) and the actual tax payable in respect of these profits. The resulting figure is then adjusted by the net amount

of any service fee or royalty payable to a group company, interest payable or receivable on inter-group loan and finally by the percentage of the net profit applicable to shareholders (preference and equity) outside the group. I shall explain in the next section that this yield, while in my view secondary in importance from a trading point of view, does ensure that managements keep an eye on the overall net result and yield, and so do not overlook the importance of financial matters.

What Use can be made of Yields?

28. The day-to-day conduct of the business which I have envisaged is in the hands of local managements who exercise wide discretion over their own affairs. But control from the centre will include:

- (a) approval of the annual operating plan;
- (b) approval of major capital expenditure;
- (c) appointment of top management;
- (d) sources of finance.

29. Only the first two of these are relevant here, and I shall deal with the second in a subsequent section. I conceive the annual plan as one of the main instruments by which the centre guides the individual units and against which it measures their progress during the year. This plan will usually contain a review of sales, margins of profit, capital expenditure, cash requirements and an estimate of the total capital to be employed in each year covered. Each operating unit should produce an annual plan in the second half of each year looking at the current year, the next financial year in some detail and probably the following year more broadly.

30. It is at the review of this plan that the first use can be made of yields on capital employed. Once the scrutiny of marketing plans, profit margins and so on are complete, attention can be turned to the estimated capital to be utilized in the operations. What is the trend? What is the relationship of turnover (a) to total capital employed, (b) to working capital? And what is the relationship of trading profit after statistical tax to the gross capital employed (a) for the whole business, (b) for each main product group? Finally, what is the relationship of the group share of net profit to the group capital employed?

31. Take first the yield on gross capital employed. This is the yield which is likely to be of most immediate use to local managements in that, generally, their aim should be an increase over the years, but not necessarily each year. By examining the yield disclosed in the plan and comparing it with expectation and with the trend over the years, managers will be encouraged to examine the underlying factors leading to the particular result. A word of warning here: if a company's aim is to maximize profits this is not the same thing as aiming to maximize the yield on capital employed. However, a fair compromise between these two aims will, in practice, usually

emerge quite naturally. It may be the limitations of capital, of opportunities to extend, of management or a combination of these which lead a board to steer a course between the two extremes. However, a low yield can mean (a) profits are too low, (b) capital invested has been too high, or (c) a combination of both. Consequently, a low yield should be used as a danger sign to ensure that profits and capital employed are examined. It may well be that on occasion nothing can be done about the capital invested; but sometimes it is possible to do something about profit and these need to be examined carefully, where necessary using the other yardsticks (e.g. sales volume profit as a percentage of sales, etc.) to get a clearer reason for the unfavourable position.

32. I have stressed first the use of the gross yield at the planning stage. It is here that the most effective action to rectify unacceptable yields can be taken i.e. before the event. During the course of the year the actual yield as it emerges can be tested against expectation. In a fairly stable business with profit arising steadily and capital being employed fairly evenly over the year, this is simple. In seasonal businesses it is rarely worth while to do short-term calculations, except very broadly, even if detailed phased estimates have been prepared.

33. You may feel the yield on gross capital employed to be a rather unreal concept. Fixed assets at estimated replacement value instead of balance sheet value; working capital, excluding cash and tax provision, and averaged over the year; trading profit reduced by an artificial tax charge – can this hotch potch tell us anything of value? From experience, I can assure you that it is extremely valuable in illuminating the idea of profitability for both central and operating unit managements. It conveys what one might call the inherent profitability of an enterprise – a concept from which sources of finance are excluded; and in which the uneven incidence of taxation and the fluctuating capital requirements of seasonal businesses are simplified. But let us be careful not to impute to this yield more than is its due. The trend can indicate the inherent profitability of the unit – but the addition of a new factory to cope with steadily increasing sales, can result in a sharp dip for a year or two. A campaign to increase share of market can do the same. This yield must be examined as part of the whole of a series of information relevant to the situation. It can, and does, in practice, influence unit managements towards economy in their level of working capital. It may, used without proper regard to its shortcomings, result in wrong decisions. For example, if managements are judged solely on yield it may lead to action designed to increase the immediate return to the detriment of the future. Again, in judging the levels of working capital it may be useful to examine the position with the aid of margins of yields on the increase or decrease in capital, rather than looking at the effect on the overall yield. Put it in more general terms, particular circumstances may

need particular methods of calculating and stating yields so that the effect of any action is clearly disclosed.

34. Comparisons of gross yields in the same type of business in different parts of the world and of different businesses in the same country can be helpful, though the level of risk and consequently of minimum acceptable yield may vary quite widely. It may help to arrive at a proper judgment of the efficiency of unit management. It can inspire unit management to be critical of themselves. On the other hand, it can lead to undue attention being paid to the immediate use of capital to the detriment of the long-term benefits of the business. The strength and shortcomings of this tool must be appreciated by all concerned and it must be used accordingly.

35. The yield on gross capital employed can be broken down to give a yield from different activities. How far such analysis can be taken depends on the type of business. Usually, it is reasonable to look at yields on product groups where these form natural divisions within a business. This may necessitate a division along broad lines of shared facilities such as steam-raising plant and warehouses. Certain stocks of raw materials may have to be arbitrarily split between product groups and the same can apply to debtors and creditors. The trading profit of product groups is likewise affected by the allocation of overhead expenses. Nevertheless, if the number of splits and allocations is fairly small, I think product group yields are helpful to operating unit managements in establishing broadly the profitability of different parts of the business, and in tracing their profitability over a period. At the centre, comparisons can be made between yields in different countries. This helps to build up an idea of the level of profitability one can reasonably expect from a product group — though this is an idea to be approached with caution, for the level of risk may vary widely in different places and the profitability of a business may also be affected by its stage of development.

36. I need hardly point out to this audience the effect of increased sharing of common services, or conversely, the discontinuance of a product group, on the overall profit and the yields of the remaining business.

37. It may be that in some businesses one can examine the yield on gross capital employed for individual products. Generally speaking, I have not found this feasible. In most businesses of which I have knowledge the allocation of capital employed and overhead expenses right down to products would be so arbitrary that it could tell us nothing of value. This is not to say that from time to time *ad hoc* exercises are not useful, to assess the yield on particular products or product groups, e.g. when considering an expansion. Indeed, where the cost of shared services represents a substantial proportion of the total cost, then unless the position of individual

products is examined from time to time, a business can be led to accept margins of profit (based on a marginal approach) which are not adequate to cover a fair assessment of the total costs and provide an adequate yield on the capital employed (including a fair share of the common services). This is not to say that I would immediately advocate increasing prices (even if competition would allow it), or that a product in this situation should be eliminated. But I would regard it as a product which, at least in the long term, must be revitalized and made to stand on its own feet. If the whole level of prices of a product or product group have settled at a low level, this may take a long time.

38. You may perhaps feel that I place too much emphasis on yields on capital employed. If the capital is already sunk one could argue that there is not much that can be done about it; the proper time to examine yields is when the money is first invested. I would certainly agree that careful examination of proposed capital expenditure is essential, but I see a lot of value in examining yields on capital already employed. Without this, one can hardly hope to develop on all sides of the business a constructively critical attitude to new expenditure. In addition, not all capital employed is sunk irretrievably. At the end of 1960 in the Unilever balance sheet stocks were shown at an amount not far short of that shown for fixed assets. The emphasis laid on yields has been a useful aid in securing that working capital is kept to a minimum compatible with the needs of the business.

39. The yield on group capital employed, as I indicated earlier, is not likely to be of such interest to local operating managements as the gross yield. Nevertheless, it is useful in keeping before the top strata of local management:

- (a) the need to maximize the use of the group's capital resources;
- (b) the benefits of tax allowances of all kinds;
- (c) the advantages of gearing-up group capital by local borrowings;
- (d) the need to put idle cash resources to work.

40. A comparison of group yield with the yield earned by local companies whose results are published can also be of interest. The yield on group capital employed is also of use at the centre as a general guide to the success of the gearing of group capital employed in subsidiaries; and in comparing the profitability of investments in different countries. For example, country 'A' may forbid local borrowing or make it difficult, whereas country 'B' may encourage some form of local participation. The effect of this will usually be clearly reflected in the group yield. But when one considers borrowing rates in, say, South America, and the risk of a continuing fall in the value of money, the effect on the group yield is not so easy to foresee.

(To be concluded.)

The Accounting World

GHANA

Insolvency Law in Ghana

THE Government of Ghana on January 20th, 1960, appointed a commission of inquiry with the following terms of reference;

- (a) to consider and make recommendations regarding the better protection by law of creditors and debtors in case of insolvency; and
- (b) to consider what legislation is desirable for the purpose of the administration of the affairs of insolvent persons, estates, firms and companies and of related matters, and to make detailed recommendations thereon.

The Commission's report was presented on August 31st, 1961, and it has now been published¹. The Commission took extensive evidence and deal in the report with the existing court machinery for the settlement of debts and with proposals for new legislation to wind up the affairs of insolvent persons, estates, firms and companies. About 270 pages long, the report begins with an interesting account of the history of insolvency law in Ghana. Over 140 pages are devoted to a copiously annotated draft insolvency bill. Company liquidations will probably be dealt with in a proposed new Companies Act and therefore the report confines itself to draft heads of a companies liquidation bill. In a summary of the recommendations the Commission suggests that insolvency legislation in Ghana:

'should differ from that in England in being concise, confined to the main principles, dealing adequately with all major aspects of insolvency proceedings, arranged in logical order so that the various stages can be followed through step by step, and capable of being understood and applied without reference to a voluminous body of case law'.

SWITZERLAND

IVth Congress of the U.E.C.

THE Union Européenne des Experts Comptables Economiques et Financiers held its fourth congress in Zürich from September 18th-21st. The theme was 'Modern business management' and permanent committees of the U.E.C. had prepared material for three plenary sessions, on the following subjects: 'New tasks for business accounting, with particular reference to small and medium-sized businesses'; 'Auditing the annual accounts'; and 'New principles of taxing business profits'.

The U.E.C. embraces all organizations of professional accountants in Europe, except those in the

United Kingdom and countries behind the 'iron curtain'. Membership is also available to individual accountants.

UNITED STATES

Cutting Clerical Costs by Data-phone

SINCE, in spite of the widespread use of data processing systems, there has been an ever-increasing flood of paper work with rising clerical costs, Mr Charles E. Lindquist, C.P.A., telephone accounting manager of the Western Electric Co, writing in a recent issue of the *N.A.A. Bulletin* (National Association of Accountants' Bulletin), urges the importance of the introduction, by various telephone companies, of a transmitting data-phone and a receiving one, for use with the regular telephone network. The data-phones are the link between business machines and the telephone. The transmitting data-phone translates the machine's information into the multi-frequency tones which travel over the telephone circuits, and the process is reversed at the receiving end. Transmission by data-phone from paper tape to paper tape, punched card to punched card, magnetic tape to magnetic tape, computer to computer, and machine to machine, is now possible, says Mr Lindquist. He sees combinations of these as offering limitless opportunities for practical application of the data-phone concept.

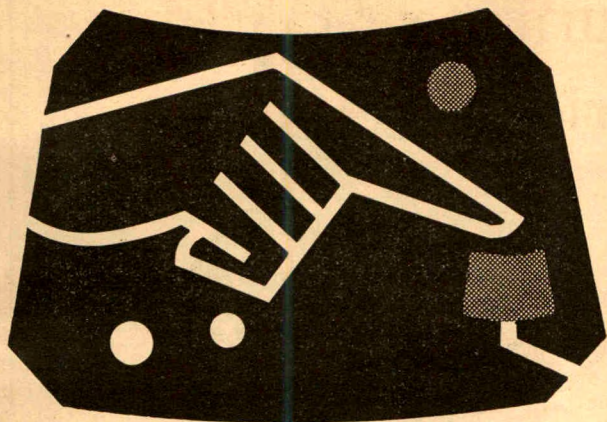
Teaching Accounting by Television

INSTRUCTION in accounting through closed television systems is now well established in many United States universities. Professor Williard E. Stone, of the University of Florida, states in a recent issue of *The Accounting Review* that, with some disadvantages, it has many more advantages in view of the tremendous demand on experienced accounting teachers through the increasing student enrolment.

At the University of Houston, students have been given free choice of attending television or live classroom lectures. Professor Stone reports that the results of common examinations given to controlled groups of students have shown that students taught by television learn as well as live classes, and possibly slightly better. But he says there has apparently been a pronounced increase in failures where television has been used for elementary accounting.

For less than from 200 to 250 students costs per student for instruction by television are higher, but beyond that they fall rapidly. At Pennsylvania State University, for classes of from 700 to 800, costs per student have been halved by television. Student reaction has been varied, but students have always voted more favourably for television after they have had a course.

¹ Crown Agents for Overseas Governments and Administrations, 4 Millbank, London SW1. 125.



BUSINESS EFFICIENCY EXHIBITION

Good ideas from all over Britain!

Once again the chance to catch up with the very latest ideas in Office and Industry, when the Business Efficiency Exhibition opens on October 3rd, at Olympia. Here, under one roof and gathered from all over Britain, ingenious and helpful ideas compete for your special interest. For you, with both eyes fixed firmly on tomorrow, this exhibition could be both stimulating and profitable.

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Efficiency on Show

EVERY office worker, from the chairman to the commissionaire, has experienced the frustration caused by the missing file; by the drawer which insinuates important papers into the dusty and usually inaccessible no-man's-land of the desk's interior; by the general capriciousness of typewriters and telephones; and even by the light or power fuse which never fails except on a dark Monday morning in mid-winter. These and many other hazards of office life are too often accepted as inevitable whereas most of them could be eliminated or minimized, firstly by taking thought and, secondly, by spending even a moderate amount on new equipment. Efficiency is, and always will remain, essentially a human quality, but the mechanical and other aids to office routine, now freely available, are so diverse and so reliable as to reduce the fallibility of the individual near to vanishing point and to make a smooth-running organization a reality rather than a dream.

For this revolution, much of the credit is due to the manufacturers of office equipment in this country who, although they are understandably in business to make money for themselves, have gone to commendable lengths to help their customers to save it. The products they manufacture and sell are the best and most up to date of their kind in the world and a visual demonstration on the grand scale of their shining wares comes to London next week in the shape of the Fortyninth National Business Efficiency Exhibition.

Time Well Spent

It would be invidious to select here any single manufacturer for special mention but in this issue we draw attention to some of the outstanding developments which are currently taking place in this most dynamic of industries. The exhibition is one which every accountant who can should find time to visit—for two reasons. One is that his own office may be in need of refurbishing and, even if it is not, there will certainly be something on view which would improve his present system. The other reason is that he may be called upon not only to advise his clients on the adoption of modern methods but to adjudicate on the respective merits of the products of rival manufacturers. This he cannot conscientiously do unless he has first-hand knowledge and there is no more convenient place for making constructive comparisons than under the vast roof of Olympia where, from Tuesday next, October 3rd, until Wednesday, October 11th, a completely representative selection of the industry's goods will be assembled for his critical inspection.

Added Attraction

At the same time and place, an electronic computer exhibition, featuring an electronic data processing symposium, will be held. The details of this added attraction, which is being organized jointly by the Office Appliance and Business Equipment Trades Association and the Electronic Trades Association, were given in our issue of July 29th.

Production Control

An Advanced Application of Automation

THE increasing application of automation to the processes of production demands a comprehensive rationalization of the works organization. A valuable aid to this end, which also enables statistical data to be collected, is the Productograph which has been developed by Siemens-Halske, of Germany, and is now available in the United Kingdom from Adrema Ltd. The collection of data is achieved partly by automatic impulse signals direct from the production machines and partly through the manual pressing of certain keys attached to the machines or workplaces. The next step from data collection is data processing; this is already in operation in numerous undertakings and demands a centralized and speedy reception of the necessary data. The gap is thus closed between the production machines and the data processing apparatus.

The starting point for the collection of data is naturally in the works itself, at the workplaces and machines. Here a number of automatic impulse generators are necessary to collect and signal the necessary data to the control post. The impulse generator is required to signal either the condition of a machine or the amount of its production. On account of the great variety of processes entrusted to machines there is a large

number of automatic impulse generators available, working on a variety of principles, the simplest being electrical contacts, (micro switches) which signal the machines' operations to the centre which checks their production.

Besides the data that can be automatically reported to the control post from the machines or the workplaces, personal reports to the control can also be made. In the simpler systems for the control and direction of work, these reports will be the reasons for interruption of production at a particular point or the reason for a certain machine standing idle. The reports to be made by operating personnel are summarized into their main groups, as for example, lack of material, machine being cleaned, tool broken, etc.

A warning light on the machine calls on the operator to signal, by pressing the appropriate key, why the machine has been stopped. This warning light can be automatically actuated by the stopping of the machine. It can also be set to operate after a predetermined delay, in order to obviate unnecessary reports of minor interruptions which may be a necessity of the production process. When the machine restarts operation, the key which reported the cause of the stoppage is automatically released. Normally, manufacturers can manage with signals for five different causes of machine stoppage, but it is possible to provide for a greater number if necessary.

Intercommunication System

The foregoing data collection can be enlarged as required for purposes such as works costing, by the recording when desired of such items as the order number, process number, costing unit, etc. The simplest method of conveying this information is the use of the intercommunication system built into most installations, which provides for the automatic recording of messages on tape if the control post is not manned. This intercommunication system is, of course, also available for spoken messages and especially for inquiries to and from the control post.

The automatic recorder (mechanical writer) in the control post generally has two recording lines for each machine, one for recording the amounts produced or the production times, the other to register the length and cause of lost working times (interruptions). The second line also serves for the division of the numbers of articles produced (into tenths or groups of ten, hundred, thousand, etc.). With the aid of a high-speed recorder it is possible to analyse work in

progress for the control of quality and, for example, to see whether the working times laid down for technical reasons are being adhered to. The analysis of the automatic recorder diagram gives an exact picture of the work load and so of the economy of work method and machines. It also shows whether and in what part of the works machines are standing idle for excessively long periods, for repair, etc., thus affording a firm basis for economic running.

Time Recording Counters

Next to the automatic recorder, the most important components of the control post are the counters for recording times and quantities and indicating data of importance to the running of the works. By means of these counters, over any predetermined period, for example, a day, a week, a month or for the duration of work on a particular order, it is possible to record separately and cumulatively the productive and idle running times, so giving a speedier and simpler picture of important works data than the automatic recorder. For the counting of quantities, the counters are driven by the impulses sent to the control post by the impulse generators coupled to the machines or workplaces. For time counting, they are supplied with time impulses, for example one minute or one-hundredth of an hour, from a control clock. Usually each machine is fitted with a counter for quantity counting whilst whole groups of machines are coupled to apparatus for recording the various totals, under pre-selected interruption causes of non-running times.

Linear Meter

For the control of individual order and general works direction, a clear picture of the progress at each machine and workplace can be obtained from the linear meter. This has a band which can be set manually to show the planned amount of production and another band which moves forwards at the actual pace of production. The scale of the apparatus can be set to the total amount to be produced and shows at a glance the actual progress of each task on each machine. The linear meter, like the other meters, can also be set to time counting and recording.

It should be noted that the work position at each machine is visible at the control post through the various indicated and recorded data. The decision, however, to be taken in the light of this knowledge, is not left to the apparatus but to the operator.

Is Electronic Auditing on the Way?

by R. M. PAINE, B.A.

Project Manager, Data Processing Division, C-E-I-R (U.K.) Ltd.

WHEN is a record not a record? As more and more commercial and industrial organizations go over to accounting methods based on electronic data processing, this becomes an increasingly important legal question.

The Companies Act, Section 436, states that an auditor should report as to whether proper books of account are being kept in a firm. Can the auditor accept computer records such as magnetic tape records – which cannot, of course, be read by the human eye – as ‘proper books of account’? The Act actually permits books of accounts to be kept ‘either by making entries in bound books or by recording the matters in question in any other manner’. This was primarily intended at the time the Act was drawn up to cover loose-leaf records, but should also legally include magnetic tape and punched cards, and perhaps magnetic drums or random-access files. In the U.S.A. the Federal Government already accepts magnetic tape records for certain purposes.

Prevention of Fraud

If records kept on computer media are legally acceptable, how can the auditor check their accuracy? With the traditional leather-bound ledgers, long delays were permissible before checking, but records on magnetic tape or random-access disc files normally are not kept for long periods – in fact it would be impractical to attempt to keep permanent records in this way. Checks directly from these media would therefore have to be done at quite frequent intervals.

Prevention of fraud has also to be considered. Under manual procedures, the traditional way to make fraud more difficult has always been to divide responsibility, so that no single person was ever in charge of recording a transaction throughout all its stages. Collusion was therefore necessary in the commission of a fraud. One of the principles of integrated data processing, however, is to knock down departmental barriers, and reduce the number of people handling records – so, in theory at least, a lesser degree of collusion would be required to make fraud possible.

On the face of it, therefore, the task of the auditor is made more difficult. But is this really true? Let us just see how an accounting proce-

dure based on an electronic data processing system could be modified to make regular checking and the prevention of fraud easier for the auditor. To begin with, a large measure of control could be built into the programming of the machine itself. The system should provide, automatically and at regular intervals of any chosen frequency, up-to-date system flow charts of the whole accounting procedure. Random spot check, perhaps using the auditor’s own copy of the programme, could be provided for, input data could be subjected to an especially strict control, and the programming could provide for regular periodic print-outs, giving the auditor a truly permanent record which could be filed in the ordinary way and referred to at any moment without the use of further computer time.

In addition, there is an increasing tendency for commercial and industrial organizations – even those who own and operate their own computers – not to handle major integrated data processing projects themselves. Instead, they hand over the data to an outside computer service organization such as C-E-I-R (U.K.) Ltd, who programme it for the computer, process it, and provide the results in whatever form or forms may suit clients and their auditors. Such organizations stand in relation to their clients much as the auditor himself does, and their very independence is in itself a safeguard against fraudulent practices within the client company.

Acceptance of a Principle

How long will it be before electronically processed accounts become a standard procedure, and fully acceptable both to auditors and to the Inland Revenue authorities? Clearly there is some groundwork yet to be done, and there must be consultation between industry, professional accountants, the tax authorities, and computer services organizations. But the programming know-how is already with us, and indeed some basic programmes have already been written. The computers are available, and standing ready to handle in hours accounting procedures which hitherto have taken months. As I see it, the only bridge yet to be crossed is the acceptance of a principle.

Accounting Routines Simplified

A CASE STUDY

ISOTOPE Developments Ltd, founded in 1950, designs, manufactures and sells isotope equipment for use in industry, laboratories and hospitals. The company has enjoyed steady growth and during 1960 became a member of the Elliott Automation Group.

In 1958 it had become apparent that the accounting and costing staffs would have to be expanded or mechanical means installed, and various makes of accounting machines were studied. It became evident that the machine purchased would have to fulfil the following requirements:

- (a) To be simple of operation with consequent ease of training operators. This was rated as perhaps the most important point.
- (b) To be of flexible character with the ability to undertake pretty well any accounting function as there was insufficient volume of any one routine to justify the installation for that one function alone.
- (c) To be within a particular price range – a ceiling figure of about £400 was envisaged.

The fact of having a 'simplified keyboard' adding machine in use tended to influence a decision towards an accounting machine with a similar keyboard, and eventually an order was placed for an Addo-X class 6,000 machine, priced at £365.

The installation was programmed over a period of six months, commencing in November 1958 with the installation of the machine for sales ledger procedures providing simultaneous entry to statement, ledger account and journal. Provision was also made on the journal for an extraction of carriage and packing charges and for each debit item to be recorded against a code number or numbers indicating the nature of the product sold and the territory on which the sale was effected.

Second Stage

The second stage of mechanization followed immediately, this being a simple and effective costing system on standard batch-cost lines. Production of various types of instrumentation at Isotope is run in batches. Each department has a standard average rate and thus a standard cost for an instrument would be broken down as to its material content and departmental labour hours. Time-sheets are received daily and

costs allocated to the various batches at the departmental rate. These are then posted to the batch cost card and with the aid of departmental cost cards the total cost is allocated into departments as to 'labour hours' and 'value'. A different coloured card (there are eight in all) is found to be useful for department identity.

All productive material when put through the day-book is allocated to a purchases suspense account which is then analysed in batch production numbers. The totals are then posted to the batch cost cards under 'material' and the cost card will now show 'total hours on the job', 'total labour cost', 'total material' and 'total cost'. As each instrument of a batch is passed to finished stock a credit at standard cost is posted to the cost card so that at the end of a batch run an efficiency/deficiency variance is automatically thrown up. Also, at the end of a batch production run a complete analysis of each item of cost, i.e. actual total material against standard material, actual departmental hours against standard departmental hours, is made so that the actual efficiency/deficiency can be brought to the notice of the works executive and the purchasing officer.

Purchase Ledger Mechanized

In February 1959, the purchase ledger was mechanized on parallel lines to the sales ledger but with coded analysis to nominal ledger headings replacing product and territory analysis.

In the following April, wages records covering weekly paid office and works staff were introduced. These took the standard form of simultaneous entry to personal record card, pay advice slip and payroll. The pay week ends on Tuesday night and the payroll is completed and balanced for the 150 employees on the system by Wednesday night.

When the machine was installed, Addo Ltd trained an operator in all aspects of machine usage, but currently four people are able to use the machine having had a brief introduction and then 'picked up the rest for themselves'. Thus there are no problems caused by sickness and holidays. Indeed, ease and simplicity of operation with economy of cost have proved to be the most advantageous factors and the accounting results obtained have enabled period accounts to be completed within eighteen days of the end of an accounting period.

New Office Equipment

SOME EXHIBITS AT THE BUSINESS EFFICIENCY EXHIBITION

The 49th National Business Efficiency Exhibition opens at Olympia next Tuesday and will continue until October 11th. The number of firms exhibiting this year is 154 and there will be a large number of new and revised machines on display. It is impossible to mention them all but we call attention in these pages to some of the new exhibits.

Calculators, Computers and Tabulators

It is claimed that any girl who can type can operate the *Monrobot XI*, a desk-sized, general purpose, digital computer, with all the standard logical, arithmetical and data processing facilities. It has a basic repertoire of twenty-seven instructions, a storage capacity of 1,024 words each of thirty-two binary digits, nine decimal digits or five alphanumeric characters, and is capable of simultaneous output on up to three devices, e.g. typewriter, five-eight channel tape, card or edge punched card. It performs 5,000 additions or 2,000 multiplications per minute.

The *Synchro-Monroe Punch Tape Adding Machine* in addition to producing the normal numerical tape codes, can generate special ones to be used as warning or identification characters during subsequent computer output. It is programmed by a simple plugboard in the control chassis and is tailored to the specific requirements of the customer. Both decimal and sterling keyboards are available and also a model with two total registers, for a sub-total and a grand total respectively.

A data processing system particularly valuable to retail organizations is the *Kimball* which enables data identifying an item or a service to be printed and punched on a small cardboard tag attached to the

product it identifies. When the item is sold the tag is detached and returned to the data processing section where it is read and transcribed into punched cards.

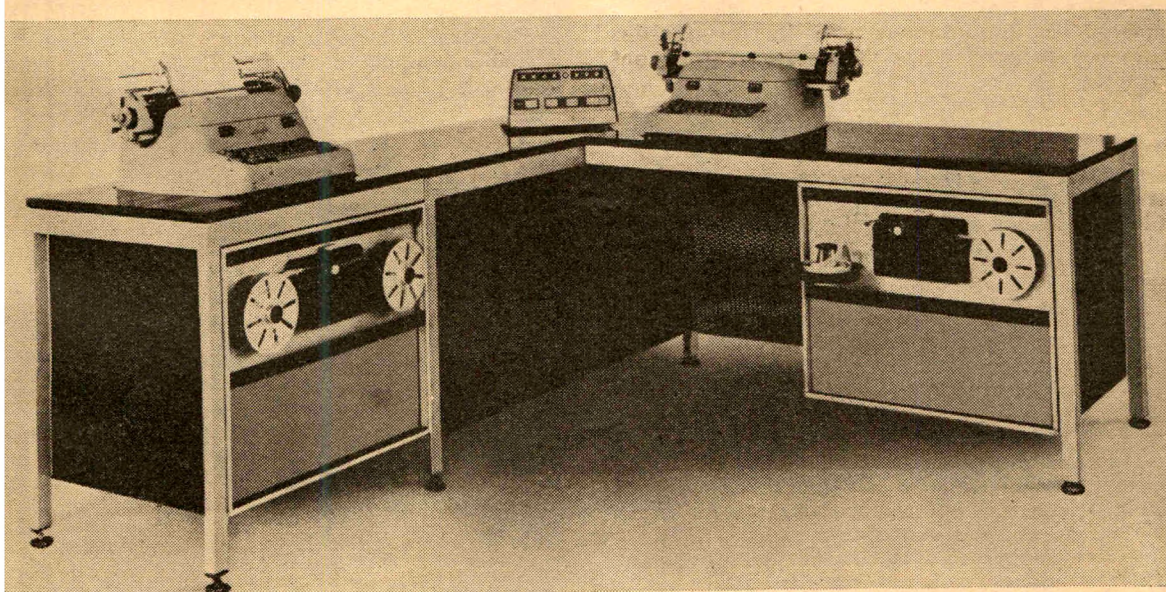
Prices: Monrobot XI £12,5000 approx.

Synchro-Monroe Punch Tape Adding Machine and *Kimball Data Processing System*. Prices on application.

Monroe Calculating Machine Co Ltd, Bush House, Aldwych, London WC2 (Stand 110).

The *I.C.T. 558 Electronic Computer* is designed to bring the advantages of the latest electronic data processing techniques to the small (40 col.) punched-card user. Card sensing is accomplished at a speed exceeding 32,000 cards an hour and output punching at over 8,000 cards an hour. Addition takes 280 microseconds and multiplication averages twenty-milliseconds. The computer may comprise any combination of one or two input/output units and a central processor of either 128 or 256 programme instructions and thirty-two or sixty-four ferrite core working registers.

A high-speed calculating tabulator, the *I.C.T. 975*, has a card reading input operating at a speed of 300 cards a minute and its alphanumeric punched output has a speed of 300 lines a minute rising to 600 lines when printing numerical information only. The print



Monrobot XI Electronic Digital Computer with one input/output typewriter, one output typewriter, two punch readers and output punch

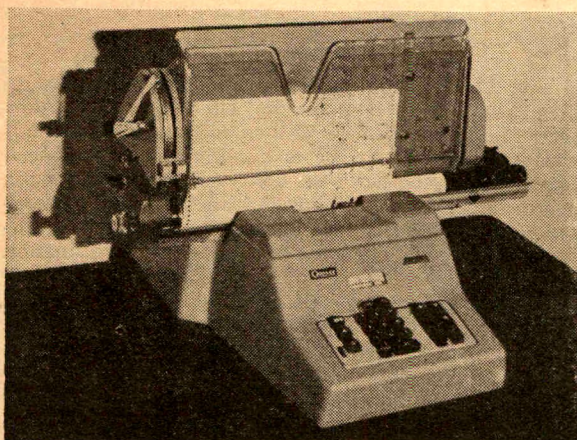
unit is equipped with 120 print wheels, each comprising fifty characters. It uses a plugged programming technique and will perform calculations in all four rules of arithmetic. It is said to undertake a greater variety of sequential operations than any previous punched-card tabulator, and can perform work hitherto requiring two machines of different types.

Prices: 558 Electronic Computer and 975 Tabulator according to installation.

I.C.T. Gloucester House, 149 Park Lane, London W1 (Stand 25-36).

The *RUF-Intro 27* is a book-keeping-typewriter with a sterling tabulator. Special features are automatic insertion of the form to the next free line and automatic line by line spacing or ejection of the form after a line of entry. *RUF Ribbon Strips* enable perfect copies to be made without carbon paper.

The *RUF Intromat-54 Electric* is a fully electric and automatic book-keeping machine available in several



RUF Adjutant

models. The form inserters are easily removeable and the machine can then be used as an ordinary typewriter.

The *RUF Intromat/Adjutant* is a link-up of *RUF Model 27* and *RUF Intromat sheet-inserter* to an add/listing machine to form a full text single register accounting machine. Any figures typed in certain selected positions are registered automatically on the adding machine. Addition, subtraction, clearance and proof are automatic. The *Adjutant* is detachable and the portable adding machine can be used independently at any time.

Prices: *RUF-Intro 27* £120; *RUF Ribbon Strips* £1 10s-£2 10s per box of 20; *Intromat-54 Electric* £330-£430; *Intromat/Adjutant* £530-£660.

RUF Organization Ltd, Imperial Buildings, Horley, Surrey (Stand 172).

The *Ultra 804* printing calculator is a desk machine operating at a very high speed. It includes an accumulating register, fixed storage register, automatic transfer of products, and a light and simple keyboard. It gives a clear printed record of all calculations, and has been developed for automatic remote operation.

Among the *Madas* machines a new model is *20BZVG* which is a fully automatic calculator and

includes many features usually found only on higher priced machines.

Prices: *Ultra 804* £305; *Madas Model 20BZVG* £375. *Muldivo Calculating Machine Co Ltd*, Dorset House Salisbury Square, London EC4 (Stand 137).

An electric *Quick Adding/Listing* machine allows the combination of the automatic sub-total key with the plus key and also combined are the total and minus keys, thus enabling the eleven-key board to be retained, a great help in speeding up work. All models are available with or without credit balance, and decimal models are available. The machine weighs only 8½ lb. and measures 12 inches by 7 inches by 5½ inches, so occupying very little desk space. It has a maximum capacity of £999,999 19s 11d on a sterling model.

Price £59 10s.

Typewriter Sundries Ltd, 140 Borough High Street, London SE1 (Stand 22).

Two prototypes of a new add/listing machine are being shown by *Addo Ltd*. It has a credit balance and all the standard *Addo* features – repeat addition and subtraction, whole number key, zero cut-out when the whole number key is used, correction key and non-add. A halfpenny key has been added in such a way that the symmetrical keyboard is not impaired and the touch method of operation can still be used.

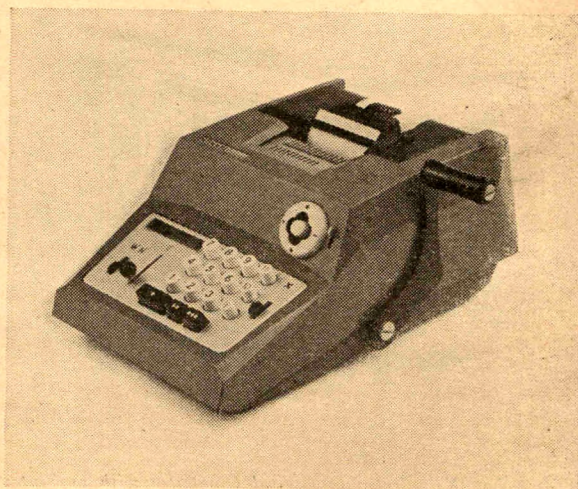
A new accounting machine is *Model 7347/80* which, with automatic feed, both insertion and ejection, provides rapid and accurate positioning of accounting forms.

An *Addo-X 7000* class book-keeping machine will be shown linked two ways with an *IBM Card Punch* and a demonstration will be given of tabulating cards being punched during conventional ledger postings on the *Addo-X*. The cards will then be read in the card punch and analysis lists created on the *Addo-X*.

Prices: *Model 7347/80* £675; *Addo-X. 7000* £515.

Addo Ltd, 47-51 Worship Street, London EC2 (Stand 104A).

The *Summa-Prima 20* adding machine is simple to look at and simple to use. It has a simplified modern keyboard, a single switch controlling all arithmetical



Summa Prima 20

functions, a short-stroke operating handle and a clearly numbered, clearly coloured column indicator. In addition to all the usual features it has a continuous subtraction lever (also allowing negative multiplication) automatic double-line spacing after totals and subtotals, intermediate sub-totals during multiplication, and single, double, and triple cypher keys. It weighs only 9½ lb. and measures 5½ inches by 9½ inches by 14 inches.

The latest Olivetti integrated data processing system comprises peripheral machines from the range of *Audit Telebanda 600, 700 and 900* class accounting and typewriting machines with built-in tape punch, which produce coded 6-channel punched paper tape as an automatic by-product of the operation raising the prime document and, at the centre, a CBS tape-to-tape card or CBN tape-to-magnetic tape converter capable of direct connection to a punched card or computer installation. The system is designed as a whole for the exact accommodation of any business data processing routine or series of routines. It provides for great flexibility of programming and the simultaneous printing and punching of data makes for very high speed.

Prices: Summa-Prima 20: not yet fixed.

British Olivetti Ltd, 30 Berkeley Square, London W1 (Stand 22).

The IBM 609 electronic calculator is a transistorized model which performs all basic arithmetic operations on data punched into cards at a speed of 12,000 cards an hour.

The IBM 421 high speed accounting machine has an operating speed of up to 150 lines or cards a minute.

Prices: 609 £14,000-£21,800; 421 £11,265-£16,125.

IBM United Kingdom Ltd, 101 Wigmore Street, London W1 (Stand 91-102).

A range of automatic data-processing equipment by Ultra Electronics Ltd, includes *Datawriters-Series T2A50*. These are conversions of the Olivetti Lexicon 80L electric typewriter, to which key switches and solenoids are fitted to provide facilities for use as an input and output writer. The keyboard can be converted for numeric operations only or for full alphanumeric, and an additional set of keys can be fitted to provide remote control of an add/list machine for the generation of special control symbols when coupled to a paper tape punch. Full programming facilities are available.

The *Encoder Punch, Type UE877* is a simple five-level paper tape punch with built in coding facilities providing for the production of paper tape by-product from suitably converted typewriters etc.

The *Solenoid-operated Elettrosomma 22* is a modification to increase the applications of the Elettrosomma 22 add/list machine. The keys are operated by solenoids energized by electrical impulses derived from any data source or from a keyboard unit.

For simplified cash or quantity analysis the *Numerical Keyboard and Selector, Type UE871*, acts as a remote control for the machine mentioned above or as a keyboard for the preparation of numerical data on paper or magnetic tape. The (10)-way selector panel enables up to 10 add/list machines, paper tape punches or other data acquisition devices to be selectively fed from the keyboard.

Prices: Datawriters Series T2A50 on application; Encoder Punch UE877 £230; Solenoid operated Elettrosomma 22 £175; Numerical Keyboard and Selector UE871 £195.

Ultra Electronics Ltd, Western Avenue, London W3 (Stand 177).

The *Addressograph Data Recorders* write all relevant information from embossed plastic cards at decentralized points directly on to standard punched card form sets to be subsequently used in a central punched card installation.

Addressograph Data Punch is a small light machine suitable for field use. Both recorders and punches can be used in conjunction with other advanced addressograph equipment in production control systems using punched cards or computer techniques.

Prices: Data Recorders £12 10s approx; Data Punch £110-£153.

Addressograph-Multigraph Ltd, Maylands Avenue, Hemel Hempstead, Herts (Stand 23/28).

Form Feeds, Collators and Decollators

A *RIBBON FEED* for ICT Punched card accounting machines 800 and 900 completely cuts out the use of carbon paper. It produces up to five prints without carbons, and being independently powered imposes no drive wear or mechanical strain on the tabulator, through which stationery is fed in accordance with the required printing programme. The same principle is also applied to an attachment for the IBM 3000 accounting machine.

Also shown for the first time is a *form cutter* that will operate at the rate of 6,000 forms an hour irrespective of depth. It guillotines the continuous web of forms, either single or multi-part, into unit documents for speedy distribution.

The latest version of the *Wilkes high-speed decollator* is fitted with trimmers that trim off the staple or gummed edge of the multi-part continuous stationery, freeing the papers and carbons and allowing normal decollation to take place.

Stationery has been designed with a double line of marginal holes on one side, the decollator trims off only the outside line, the inside line of holes together with the marginal holes on the opposite edge being retained for subsequent recollation or for high-speed separation with the form cutter.

Prices: on application.

James Wilkes Ltd, Bilston, Staffs. (Stand 145)

The *Formaliner Feed* includes electric typewriters on which lightweight nylon tractors have been fixed above the platen in order to maintain perfect registration of continuous forms whilst being processed at high speed. An electric line finding device can be linked with the Formaliner and at the touch of a key the forms are automatically moved to the next predetermined writing position.

A *Form Detacher (Guillotine Model)* cuts and stacks single or multiple part forms in sizes varying from 12 inches deep to as narrow as ½ inch at speeds up to 5,000 sets an hour.

Prices: on application.

Lamson Paragon Ltd, Paragon Works, London E16 (Stand 108).

Duplicators and Printers

THE 380 *Stencil Duplicator* shown by Gestetner is a double foolscap model, its main feature being wide range of printing area. It will print on paper as large as 18½ inches wide by various lengths or as small as 3 inches by 5 inches, and from one double foolscap size stencil, one foolscap size, or two foolscap stencils side by side. The first double foolscap stencil duplicator



Gestetner 380 Stencil Duplicator

to incorporate automatic inking, cyclovane delivery control and paper jogging, it includes also self-adjusting floating feed, giving perfect register on all types of paper, easy adjustment of print position while operating, variable speed control, automatic counter and quick simple colour change facilities.

Price: £265-£275.

Gestetner Duplicators, 210 Euston Road, London NW1 (Stand 4-28).

The *Azoflex 155* for dyeline copying will handle all types of documents, engineering drawings, specifications, etc. Its capacity is 3,000 copies per hour size 13 inches by 8 inches, or 1,500 copies per hour size 13 inches by 16 inches. It automatically prints, develops, cuts, counts and delivers perfectly flat copies to the stacking tray, or to a special twenty-five-compartment paddle wheel collator supplied as an extra. A new feature is an automatic pre-feed stacker that gives an even bigger saving in time and labour costs, and the machine can produce a typist's total weekly output in fifty minutes.

Price: £2,195.

Ilford Ltd, Ilford, Essex (Stand 84).

In the *Dalcofier VL* printer and processor are combined in a compact unit to copy from bound books as well as single sheets. The process uses only one type of paper for both negative and positive and no adjustments for exposure have to be made for normal copying requirements. Glossy finish copies can be processed in seconds from half-tone reproductions, photographs and

film negatives. No open tray developing, fixing, washing and drying are required so all delays are eliminated.

Price: New British Model £96.

Copycat (Dalcofier) Ltd. Queens House, Leicester Place, London WC2 (Stand 133).

Complete elimination of the use of chemicals is achieved by the *Diazo-therm* dyeline process, which provides a dry, stable and high quality copy processed by the simple application of heat. It will be demonstrated on machines incorporating automatic separation of originals from copies and automatic stacking of originals and copies in receiving trays.

A new *Dyeline Model* has a production speed of between twenty/thirty copies a minute. The quantity required is set by a dial and on completion the original is ejected. It automatically exposes and processes and takes paper of varying sizes and colour.

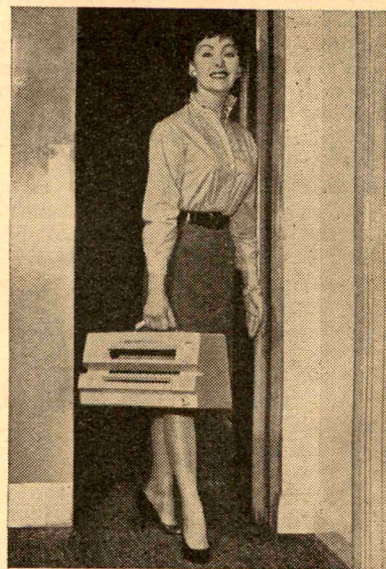
In a new model of the *Pacemaker*, weight has been reduced to a minimum, and the latest *Economist* models have been redesigned to be readily portable. The processing agent is now supplied in replaceable and unspillable containers.

Prices: New Dyeline model on application; Pacemaker £99 10s and £138 10s; Economist £59 10s and £88 10s.

Copycat Ltd, 40 Victoria Street, London SW1 (Stand 168).

A portable photocopying machine that will copy faithfully any mark on any type of paper is the *Speed-O-Print*, available with a normal tray type tank into which developing liquid is poured or with special *Redi-Pak* adaptation at the rear of the machine. This holds thirty-two fluid ounces of ready mixed developing fluid which automatically fills and drains the developer tray.

The *Speed-O-Print Model 150* photocopier is said to be 'a complete office photocopying department', taking documents up to 15 inches wide by any required length. Ready mixed developing fluid is held in a flat plastic sac at the back of the machine and is



Speed-O-Print Portable Photocopy Machine

automatically drained into airtight storage when the machine is out of use. Double paper dispensers enable papers of different sizes to be housed and perfect copies from any original may be made in daylight conditions in twenty seconds.

Prices: Speed-O-Print Portable £60; with Redi-Pak Adaptation, £62; Model 150 Photocopier £175.

Office Mechanization Ltd, Ofrex House, Stephen Street, London W1 (Stand 63).

Model 80S Multilith is a small machine designed for the small concern. It makes very short run work practical and economical and is particularly useful for export invoicing and other 'Systems' duplicating. The *Simflo* attachment provides automatic application of ink and moistening agent in correct proportions.

Model 670 Automatic Copy Sorter worked in combination with *Model 2550 Multilith* is a great advance in speed and efficiency. The sorter gathers copies into sets as they come off the press and in a single continuous operation material is automatically printed, sorted and gathered ready for distribution.

Prices: on application.

Addressograph-Multigraph Ltd, Maylands Avenue, Hemel Hempstead, Herts (Stand 23-38).

A table-model electric duplicator, the *Roneo 550*, can handle all paper sizes from 8vo to policy and has interchangeable cylinders for colour and small work up to foolscap size.

Price: £160.

Roneo Ltd, 17 Southampton Row, London WC1 (Stand 21).

The *Ozafax 20 Office Copier* uses a new electro-photographic process with paper that is insensitive to light until placed in the machine, when it is sensitized by an electrostatic charge. The copy is passed through a pigmented liquid developer which simultaneously makes the image visible and fixes it permanently. The normal operating speed is fifteen-twenty copies a minute. It will accept all kinds of opaque or one-sided translucent documents and originals up to nine inches wide and of any length. The copies will not fade, are unaffected by heat and do not stain.

The *Dri-copy* machine develops by heat instead of gas or liquid, and the action is almost completely automatic. The average time for making a foolscap copy is fifteen seconds.

The *Systems Ozaprinter* is designed principally for the mass production of office documents. Among its special features are electronically controlled variable speed, the grouping of all controls on one side of the machine, tidy stacking, easily adjustable feed unit, and variable display panels indicating the number of copies being made.

A rotary office photocopier is the *Develop Combimat* using the diffusion transfer process. It makes up to six copies a minute and the only manual action required is feeding in the original with a sheet of negative paper. The light source can be switched off independently enabling the developing section to be used alone for finishing negatives exposed on a flat-bed unit.

Prices: Ozafax 20 not yet available; Dri-copy, under £300; Systems Ozaprinter Develop Combimat, about £309.

Ozalid Co Ltd, Langston Road, Loughton, Essex (Stand 20).

The *President Photocopier* is an all-electric rotary machine, fully automatic and very simple to operate, with a special colour guide and a device that eliminates the necessity for constant filling and emptying of the developer.

A high-speed *Press Button* machine is a diffusion transfer copier making photocopies at the rate of approximately 180 an hour in one simple operation. It will copy documents up to 11 inches wide by any reasonable length and is small enough to fit on a corner of a desk, enabling the operator to sit while using it.

The *S.K.-B.40* folio copying machine has been modified to give faster copies than ever. It is fitted with a special clock geared to a high-powered light source, that completes exposures in two seconds and at the same time gives greater exposure latitude. The operation of the *E-B 40* book-copying machines has been speeded up in the same way.

Prices: President Photocopier £49; Press Button Copying machine £162 10s; S.K.-B.40, £56 10s and £76 10s; E-B 40 £84 10s and £97 10s.

George Anson & Co Ltd, Solway House, Southwark Street, London SE1 (Stand 95).

Two *Selectronic Line Selecting* machines are being shown, one fitted with a variable data printing unit doing away with the need for variable masters, the other producing from the original master lists of any required category of parts, assemblies or sub-assemblies. It will print any number of consecutive or non-consecutive lines from the master to produce a clear and condensed list.

Prices: £2,500.

Bulmers Business Machines Ltd, Empire House, St Martin's le Grand, London EC1. (Stand 104B).

Communication Systems

DESIGNED for use with the Grundig Stenorette dictating machines, the *Omal Centralized Dictating System* will, it is claimed, make substantial savings in dictation and transcription costs over a period. The two-machine control unit system reduces transcriber staff requirements by giving typist-operator control at one point of both incoming dictation and her own transcription. Units connect to existing telephone system with little or no extra wiring costs.

Price: Control Units £39 each.

Office Machinery Ltd, Omal House, 169 Tottenham Court Road, London W1 (Stand 98).

Each of the sixteen items in the range of office equipment on the Remington Rand stand this year is completely new.

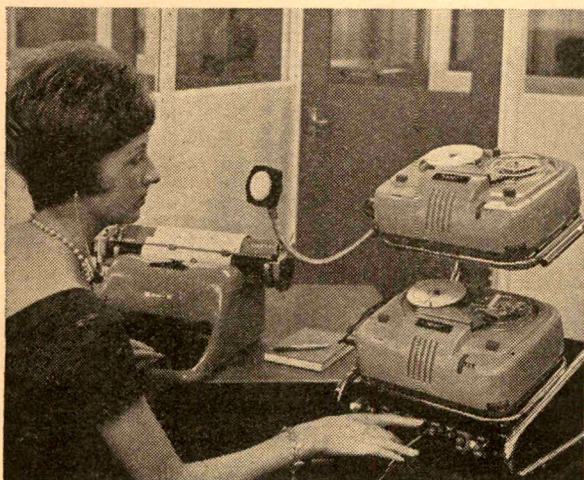
Of particular interest will be the *Remington U3 Ultravox*, a light-weight (9 lb.) dictating machine combining executive and secretarial models in one complete unit. Small enough to fit into a brief-case, the new *Ultravox* includes all the features of larger models: an index strip, volume control, microphone and holder, and practical playback accessories. The *Ultravox* sound-sheet takes ten minutes of perfectly reproduced dictation, and can be used again and again.

Price: £78 10s.

Remington Rand Ltd, Remington House, 61-65 Holborn Viaduct, London EC1 (Stand 64).

The *Eminet* personal centralized dictation systems - telephone reply and bank systems - are designed to

restore direct personal relationship between pool typists and individual executives making use of their services. With the bank system every telephone is a dictating point and the minimum number of girls can work for the maximum number of executives. The system can, if desired, be operated by separate and direct wiring. The control panel operated by a supervisor can be assembled for six or nine units; it provides



Eminent Recording Machine

automatic switching and work distribution and can be used for out of hours work. By switching between two *Eminent* recording machines the typist can begin transcription before the dictating session is finished, thus providing a continuous dictation facility.

Price: Rental terms according to installation.

EMI Office Equipment Division, Manchester Square, London W1 (Stand 146).

Furniture

INTERNATIONAL design in office furniture is featured by Ryman Furnishing Contracts Ltd. From Los Angeles comes *Multalum*, consisting basically of an aluminium structural system on the modular principle to hold from one-four chairs, any of which may be replaced by one of three types of table. Seating units are available in longer lengths for conference rooms, auditoriums, etc.

The *Holzapfel* furniture from Germany comprises three ranges; the *Pen* is primarily designed for the general office, the *DHS 30* for managers, and the *DHS 300* for directors.

Great Britain contributes the *Formation* range of timber desks with tops that allow adequate room for files, telephone, trays, etc., without interfering with the working surface. The sides of the desks are flush so that they can be butted together in various positions.

The *Thinkerchair* is also British designed but made in Switzerland. It has a self-adjusting back and short arm-rests, giving freedom of movement, the seat is adjustable to six different heights and the spring-loaded rotating base makes the chair adaptable to individual requirements.

From Holland comes the *Ahrend* range of 'U-shape' section construction steel furniture, giving greater flexibility than tubular or solid steel. *Revolt* and *Result*

chairs are designed for an alert position combined with maximum comfort and correct posture.

Ryman Furnishing Contracts Ltd, 39 Dover Street, London W1. (Stand 163).

Among the Roneo exhibits is a new range of chairs, a modular unit that can be built up in virtually endless combinations, including personal cupboards, work stations, desks, sideboard units and telephone tables. Also shown is a constructionally advanced range of industrial lockers.

Roneo Ltd, 17 Southampton Row, London WC1 (Stand 21).

Filing and Stationery

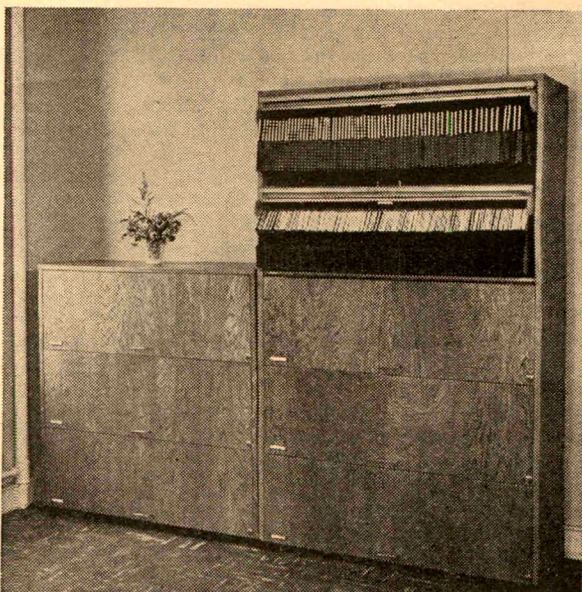
MAJOR changes have been made in the *Vetro Lateral Folder*. The buff mantilla completely encloses the millboard on the suspension edge to give maximum bursting strength, and a reinforcing tongue has been added to the base of the holder which receives a great deal of wear and tear. A large metal holder firmly riveted to the folder swivels in an arc to give three viewing positions.

A Lateral Filing Cupboard, *V/L 250*, made of good quality furniture steel is fitted with a grey plastic roller blind and five sets of rails that can accommodate at least 350 folders. It takes up only 4½ sq. ft. of space.

Prices: *Vetro Lateral Folder* £5 2s 6d for 50; *Lateral Filing Cupboard V/L 250* £21.

Percy Jones (Twinlock) Ltd, 37 Chancery Lane, London WC2 (Stand 103).

Among the new ideas incorporated in the *Vistafile Pendulum* lateral filing unit are doors for each tier sliding away on special patented easy running tracks, a separate lock for each tier, and the unit principle of construction, facilitating expansion or regrouping. The standard width of each tier is 4 ft. and the front to back dimension 1½ ft. The floor area occupied is 6 sq. ft. per unit and this is unchanged however many tiers are added.



Anson Executive Vistafile Pendulum Unit

The *Visicast Summary Analysis* equipment is particularly useful for chain stores, food stores and wholesale organizations. It makes easy the speedy analysis and casting of order or summary slips from any number of scattered shops or warehouses and provides effective management and financial control. A novel feature is that instead of holes, small rectangular slots are punched at the head of the summary or order slips and these are placed over corresponding grooved tongues on the summarizer, preventing the slips from falling askew, while a retaining plate at the head of the summarizer further reduces the possibility of inadvertent column masking. Summary or order slips can be supplied in two, three or four-part sets, colour printed as required.

Prices: on application.

George Anson & Co Ltd, Solway House, Southwark Street, London SE1 (Stand 95).

Most billing board wages systems read across the sheet, but in the new *Paymaster Wages System* addition and subtraction are done vertically. Only one piece of double sided carbon paper is needed to produce the three essential wage records. Summary sheets are provided on which totals of wages sheets can be transferred to form the wages book. The portable billing board can be used on an ordinary sized desk.

A range of *Pull-Proof* sheets and indexes for certain sizes of ring books are reinforced at the binding edge with a super-strong polyester film only 1/1,000th inch thick and over four times stronger than unreinforced paper.

Prices: Paymaster Wages System approx. £24 per annum per one hundred employees; Pull-Proof sheets not yet fixed.

Percy Jones (Twinlock) Ltd, 37 Chancery Lane, London WC2 (Stand 103).

Typewriters

THE *Adler Electric 20* is a fully electrical office typewriter designed to operate at high speed with a very light touch. The carriage returns and tabulator are exceptionally rapid and on the new design keyboard the upper keys have a shorter depression movement than



Adler Typewriter

the lower, adding considerably to the writing speed. The combined tabulator set and clear key, also the total release for the practical tabulator, are organically incorporated in the keyboard. The width of the roller is 13 inches with a paper capacity of 14½ inches and the typewriter is available in two spacings.

Price: £159.

Typewriter Sundries Ltd, 140 Borough High Street, London SE1 (Stand 22).

Second Electronic Computer Exhibition

Olympia, London, October 3rd — 12th

SOME EXHIBITS BRIEFLY DESCRIBED

THE first electronic computer exhibition held in London in 1958 showed that a typical computer could perform about 3,500 additions per second. Performances over the intervening three years have improved to cover 47,000 additions per second. It is timely that the Office Appliance and Business Equipment Trades Association and the Electronic Engineering Association should now stage this second exhibition which will run concurrently with the Business Efficiency Exhibition also being held at Olympia next week. In addition, an Electronic Data Processing Symposium, details of which were announced in *The Accountant* of July 29th, is to be held from October 4th–6th in conjunction with the Computer Exhibition. We describe below some of the machines which will be on display at Olympia.

On Stand 15, ASSOCIATED ELECTRICAL INDUSTRIES LTD will be exhibiting the *AEI 1010 Digital Computer* and other associated peripheral equipment.

The *AEI 1010* computer is a new generation machine which, though small, is able to process large quantities of data and is able to control up to thirty-two peripheral units simultaneously. These include output printers (the one to be demonstrated on the stand being capable of producing copy on various forms at the rate of 3,000 lines per minute) fast

magnetic tape units and random access memories, paper tape readers, paper tape punches, card readers and card punches. Data processing systems, of various sizes and costs, can thus be built round the central computer to meet any requirement. Existing data processing systems can also be assimilated, including programmes prepared for any other equipment.

The computer has been so designed that it will work with any type of new equipment which may be available in the future. The ease with which equipment can

be added makes expansion possible at a later date. The only extra costs involved are those associated with each new unit and its control cubicle.

The recent announcement that AEI and Facit Electronics AB of Sweden had made an agreement resulting in the Electronic Apparatus Division of AEI being appointed sole agents in the United Kingdom and British Commonwealth (except Canada) for the Facit Carousel random access magnetic tape memory, the Facit high-speed tape punch and the Facit high-speed tape reader, enables these three items to be on display for the first time in Britain.

INTERNATIONAL COMPUTERS AND TABULATORS LTD, on Stand 21, are demonstrating their new *I.C.T. 1301 Data Processing System* for the first time. The principal feature of the 1301 is its high processing speed combined with its exceptionally large capacity. The system operates with punched card and/or magnetic tape input and output as well as printed output at 600 lines per minute. The rate of programme controlled punched-card input is 600 cards per minute and up to eight magnetic tape decks can be incorporated in the system. Two magnetic tape systems are available – the standard system ($\frac{3}{4}$ inch tape operating at 22,500 digits per second) and the high-speed systems (1 inch tape operating at 90,000 digits per second). An immediate access core store has a basic capacity of 400 words each of twelve digits capable of being expanded to 2,000 words in multiples of 400 words. This is backed by a drum store holding 12,000 words of twelve digits and able to be extended up to 96,000 words in multiples of 12,000. The fully transistorized central processor operates at 1 million cycles per second. Decimal or sterling addition and subtraction are executed in twenty-one microseconds and for multiplication the average is 170 microseconds per multiplier digit.

I.C.T.'s Type 1202 Electronic Computer will also be exhibited and demonstrated. This general purpose data processing system will be occupied demonstrating a computer application currently in use by L'Economie Bretonne in France. The demonstration is concerned with the accounting procedure for daily branch invoicing, sales analyses and stock control.

DATA RECORDING INSTRUMENT CO LTD, Stand 37, a subsidiary of International Computers and Tabulators Ltd, specializes in the manufacture and marketing of electronic computer components and ancillary equipment, including magnetic tape transports, read and write heads and tape testing equipment. Two digital tape transports will be shown in operation programmed to simulate actual working conditions. Data Recording's tape testing equipment will be the main exhibit. This comprises a desk console and tape transport unit. The tape will be recorded to saturation as it passes under the 'record' head. Flaws or imperfections in the backing, or in the magnetic oxide, sufficient to cause a free field from the tape, will be detected under the 'read' head on detection of a flaw the equipment will automatically stop and place a magnetic signal mask on the appropriate track. The tape will then be automatically reversed at slow speed to bring the detected fault under an inspection microscope. A second test can be arranged to cater for any track configuration and tape specifications, again permitting completely automatic operation.

E.M.I. ELECTRONICS LTD, on Stand 2, will be exhibiting their *Emidec 1100* transistor computer, of the type which has already been installed in the offices of nine leading industrial organizations and Government departments in the United Kingdom. This will be the first time that an *Emidec 1100* has been shown in full operation at a public exhibition.

A popular feature of the E.M.I. stand is expected to be the private theatre where frequent showings will be given of *Computer Achievements*, the new twenty-two-minute colour film which describes the work of the *Emidec* computers at Boots, British Motor Corporation, British European Airways, Barclays Bank and the Royal Army Ordnance Corps.

Among the computer programmes which will be demonstrated regularly on *Emidec* throughout the exhibition, are part of the payroll at B.M.C.'s Longbridge factory, stock control at the Admiralty stores at Copenacre, sales invoicing for E.M.I. Records, and typical hire service applications, such as fixed interest yield tables and engineering calculations. The company's stand installation will include a four-bay computing unit containing a 16,000-word drum, control console, power supply, four operational magnetic tape decks and a spare deck, five-hole paper tape punch and teleprinter, paper tape reader, card punch, card reader and 600-line-per-minute printer. Punched tape and cards for most programmes will be prepared in advance, but a small data preparation area will enable some data to be prepared on the stand.

Visitors will be able to see a complete data processing system operating in a typical layout. Systems analysts, programmers, installation and commissioning.

Leo III, the fastest machine yet produced by LEO COMPUTERS LTD, is to be shown in part on their Stand (43) at the exhibition. The new computer, which is fully transistorized, reads and records on magnetic tape, printing results at more than 50,000 lines an hour. An important feature of the new model, the high-speed *Anelex Printer*, will be demonstrated. Visitors will also see in operation a magnetic tape transport and a paper tape reader linked to an input assembler working at 1,000 characters per second.

Other *Leo* exhibits will include a control desk and a number of cabinets from a *Leo III* model, a Kimball tag converter and other items of data preparation equipment. During the exhibition, visitors wishing to see a *Leo* computer at work will be invited to view operational installations or visit one of *Leo's* service bureaux.

Exhibited for the first time in this country by ACCOUNT-TOKENS LTD (Stand 53) a member of the Lamson Industries group of companies, will be the *Printapunch*, a machine which will imprint and punch pre-scored tabulating cards with source data at the point of origin. The machine uses code holes in embossed plastic or metal plates to punch significant data into pre-scored tabulating cards using standard punching code. Simultaneously the machine will punch constant and variable data into the cards and will imprint clear, legible information from the embossed plates.

The machine was developed specifically to meet the need of capturing source data at the point of origin thus eliminating the writing and separate punching of

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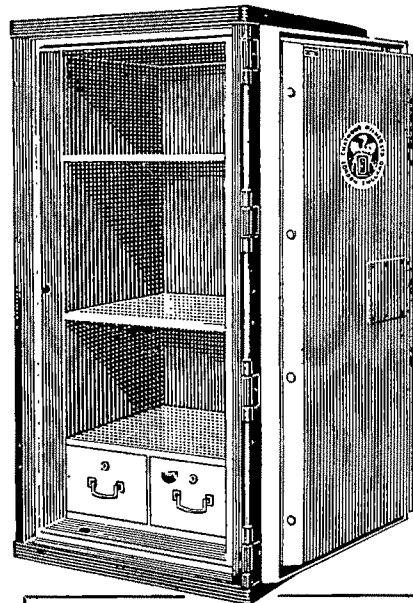
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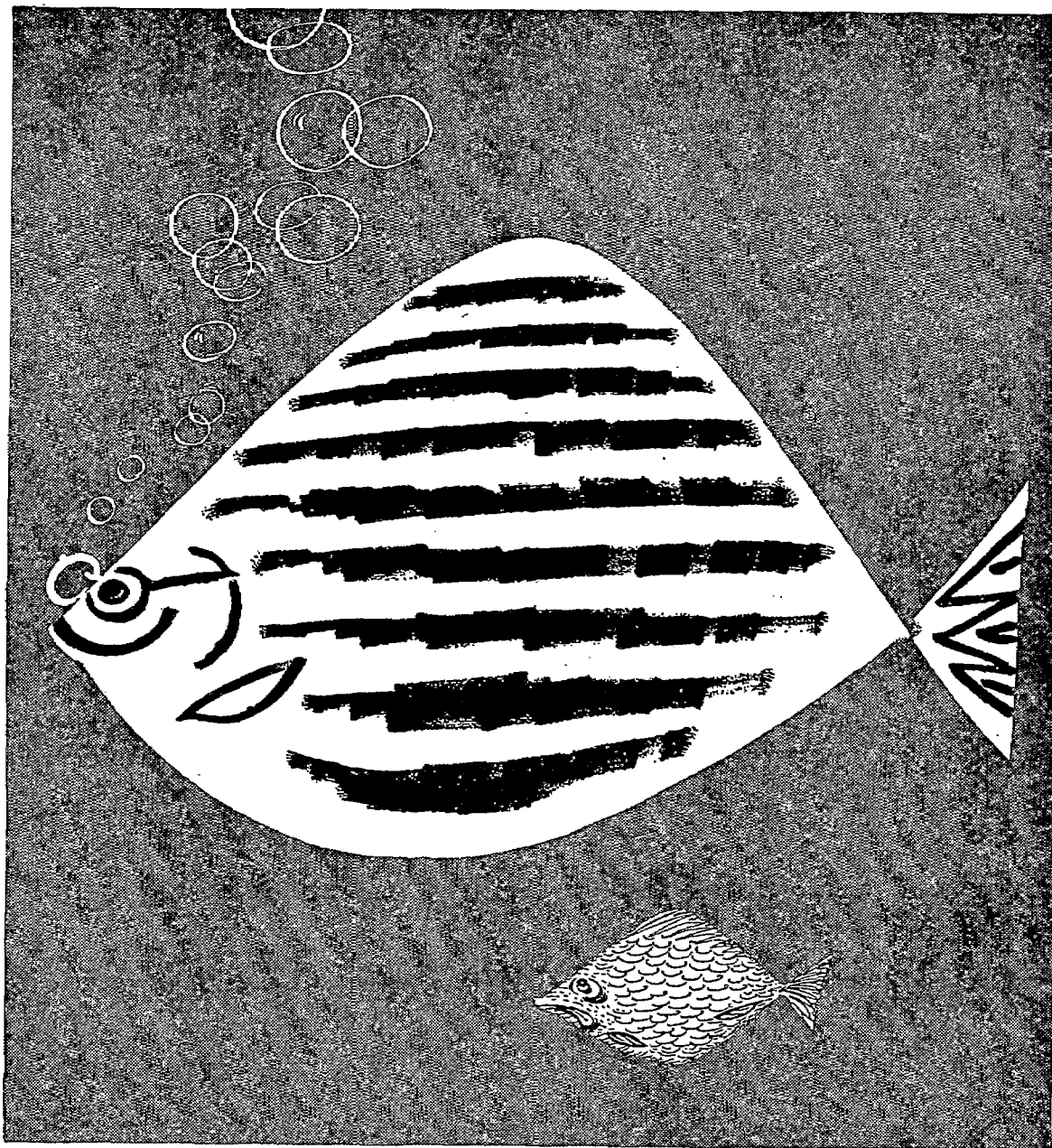
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source documents – duplicate steps which are now needed in integrated data processing systems. The combined features of simplicity, flexibility and low cost make this machine popular for a wide variety of data processing applications including stores control, production control, payroll, credit and charge account systems, etc.

The *Sirius* and *Argus* computers and the *Atlas* control desk are among the main exhibits of FERRANTI LTD (Stand 8). The *Sirius Computer* is a small transistorized computer specially designed for ease of use. Characteristic features are its decimal notation and display, its desk-machine type of controls, and the fact that it can be plugged into the ordinary domestic mains supply. The *Argus Computer*, a transistorized computer is designed for the direct control of industrial processes. The machine which can work on several different control programmes simultaneously, will be shown operating with a working model of a plant in the form of an animated display.

Ferranti's *Atlas Control Desk*, the first production model of the *Atlas* computer – claimed to be the most powerful in the world – is now being installed at Manchester University, and the control desk of the machine is being put on show to represent it. This computer – a general-purpose machine suitable for both scientific calculations and data processing – is notable for its extremely large capacity and high speed. Original design features include a supervisory system for regulating the flow of work through the machine, a 'page address' system for more efficient utilization of storage space, a new type of semi-permanent store for frequently-required data, and an adder with exceptionally fast carry-over. A scale model of a complete *Atlas* installation will also be shown.

One of the main features of the NATIONAL CASH REGISTER Co's Stand (14) will be a representational display of the new *N.C.R. 315 Electronic Data Processing System*. The 315 employs a unique memory system called *Cram* which stores information on special magnetic cards and provides exceptional facilities for both random and sequential processing.

The cards are held in interchangeable cartridges, each of which stores over five million alpha-numeric characters. Moreover, since a cartridge can be changed in less than thirty seconds, the total capacity of this flexible magnetic filing system is virtually unlimited.

For many purposes, one *Cram* unit will do the work of three or four conventional magnetic-tape units. However, in larger installations up to 16 *Cram* units can be coupled simultaneously to the 315 central processor, giving immediate access to any one of eighty-eight million alpha-numeric characters.

For the mass-production of invoices, statements and other business documents there is a high-speed printer working at 680 lines per minute (or 900 lines per minute on purely numeric information). This is based on equipment which has already been installed by British firms and has established its ability to sustain these speeds over very long periods.

The many peripheral units specifically designed for use in the 315 system includes the *N.C.R. C-380* high-speed punched-card reader. This reads and checks

up to 2,000 eighty-column cards per minute – a performance never before attained in the field of punched-card processing.

An entirely new business data processing system – the *N.C.R. 390* – will make its first public appearance at the exhibition. Compact and inexpensive, it has been designed for general purpose work in firms of all types and sizes.

The 390 employs special magnetic ledger cards on which information is recorded in both normal print and 'machine language'. Whenever one of these cards is extracted from a file and placed in the printer, a complete history of the account is immediately passed to the central processor.

The built-in 'memory' consists of a series of narrow magnetic strips, superimposed on the back of the card. These can be likened to sections of the magnetic tape used in large computers. Up to 200 characters of information can be stored on each card.

The encoded information is automatically read and verified at high speed. Whenever the account is processed, the 390 up-dates both the printed and magnetic data on the card.

The ENGLISH ELECTRIC Co's Stand (9) has been designed to highlight the company's latest work in the field of solid-state digital computers and data processing systems. Three systems, the *KDPro*, the company's main medium/large commercial system, *KDF9*, the very high-speed English Electric general purpose system and a new *LATAPAC* computing installation will be exhibited for the first time.

The main displays will fall into three sections, centred on the new equipment, and will include fully operational magnetic tape units, a card reader which will be demonstrated in conjunction with one of the tape units, and an automatic printer which will print out data from another tape unit – all interchangeable units for *KDPro* and *KDF9*. Also on show will be a *KDPro Console*, high-speed store and tape storage unit, a *KDF9 high-speed Tape Reader*, and the new *Datapac Computing System*. Other displays include various installations of the company's *Lace* analogue computer, and some applications of the well-known English Electric *Deuce*.

IBM UNITED KINGDOM LTD, on Stand 11, are exhibiting four main types of equipment bringing together a comprehensive range of their electronic data processing equipment. They include the *IBM 1620 Data Processing System*, an easy to use stored programme computer containing up to 60,000 positions of magnetic core storage, and the *IBM 1401 Data Processing System*, a compact, transistorized system with a magnetic core storage of up to 16,000 positions. *Ramasc (Random Access Memory Accounting Machine)* disc files provide immediate access to an additional twenty million characters of information. The system reads 800 cards per minute, prints 600 lines per minute and punches 250 cards per minute. Since the 1401 was introduced in the United Kingdom in October 1959, over 110 have been ordered of which fifteen are already in operation. Programmes which will be demonstrated at the company's stand include: hire-purchase accounting; insurance; manufacturing control; invoicing; payroll; stock control, and public utility accounting.

Weekly Notes

British Minister at Canadian Accountants' Conference

ADDRESSING the annual conference of the Canadian Institute of Chartered Accountants in Toronto last Tuesday, the President of the Board of Trade, the Rt Hon. Reginald Maudling, M.P., said he often felt that Ministers who are operating Government policies were called upon to make decisions in matters of investment which could better be confided to members of the accountancy profession.

In his speech which constituted a review of all aspects of international investment – private, public, Government, world institutions, aid to less developed countries, etc. – Mr Maudling said that throughout the last century the flow of capital from Britain played an outstanding part in the development of many overseas economies. He regretted that they had not been able to do even more in recent years in the way of international investment.

The disparity between the 'haves' and the 'have nots' was too great to be solved without a conscious effort by industrial countries to increase the flow of capital to the developing nations. This was of fundamental importance to relations between countries and continents and to the long term peace of the world.

Boardroom Behaviour

THE Institute of Directors is rightly much concerned with raising the professional status of directors and, in consequence, many of its publications have that objective. Some time ago, the Council of that Institute sponsored a book on the functions, powers and duties of a company director.¹ It has now issued a companion volume which purports to be neither a legal textbook nor an ethical treatise but a description of the standards of directorial behaviour aspired to by well-conducted companies in the United Kingdom.²

The scope of the subject-matter of this latest publication is ambitious and covers the range of a director's responsibilities; profits; relations with shareholders, employees, customers and creditors; take-over bids; remuneration and expenses; the composition of the board; the standing of the local or special 'director'; the accounts; and the policy towards donations for charitable or political objects. Not all of these topics merit extensive consideration

but some certainly deserve much more than they in fact get. The financial accounts, for example, are dismissed in just over a page and the disposition of company profits in rather less than three. On the other hand, the chapters on the range of the director's responsibilities and on the composition of the board are, by comparison, comprehensive and most informative. This unevenness of treatment detracts from the value of what might have been a really authoritative work and its compilers cannot complain that they had not enough elbow room even within the existing format. Although it is referred to as 'a seventy-two page book', five of these are completely blank and, indeed, the essential text with foreword (by Viscount Chandos) and index utilizes barely sixty pages.

How to Retire Gracefully

IN 1908 when the first Pension Bill became law, only one person in fifteen was pensionable. At present, the proportion is one in seven and by 1981 it will be one in five. The financial problems which this trend poses are considerable, but even more imponderable – to some extent because they are less tangible – are the social problems involved. How can this increasingly large section of the population be made to feel that they are 'not unwanted' or 'un-economic' and how can they be encouraged to retain an active interest in the world immediately around them?

In a commendable effort to find out how these questions are currently being tackled, the Institute of Directors recently held a one-day conference at which a number of experts submitted their views. The results of this valuable symposium have now been published in booklet form and make fascinating reading.³ The survey covers five 'approaches', the first being that of an anthropologist who summarizes his reflections by stating that universal retirement is a novel development in human society; that, apart from a loss of income (an aspect which is being remedied), the greatest deprivation of retirement is loss of status; and that it is the duty of society as a whole to make life meaningful to the aged in their remaining years. The second section is shared by three contributors who deal with the difficulties of employing executives whose ideas become less flexible as they grow older and the third section, again tripartite, demonstrates how personal problems of retirement, principally those of finance, loss of status and the occupation of leisure time, can be surmounted. The fourth section, like the second, takes the standpoint of the employer and reviews the ways and means of providing for retirement benefits. The fifth and last section lists what is being done to promote activity in retirement both by individual firms in industry and by social and welfare organizations.

The chief merits of this excellent booklet are its

¹ *The Company Director*, by Alfred Read (Jordan & Sons Ltd, London. 25s net.).

² *Standard Boardroom Practice* (Institute of Directors, 10 Belgrave Square, London SW1. 12s 6d.).

³ *Problems of Retirement* (Institute of Directors, 10 Belgrave Square, London SW1. 5s.).

sincerity and its simplicity and the hopeful feeling which permeates its pages – that retirement is an integral part of life to be enjoyed to the full – should encourage many aged people to look to the future with pleasurable expectation rather than with despair.

The Liberal Party and Taxation

THE Liberal Party Assembly last week demanded a radical reform and simplification of the taxation system. It approved an executive resolution calling for this on the following lines:

- (a) Replace insurance stamps by a social security tax;
- (b) Amalgamate personal income tax and surtax;
- (c) Relax the burden of taxation on married couples;
- (d) Treat the first £500 of unearned income as earned;
- (e) Abolish Schedule A;
- (f) Introduce a tax on short-term capital gains;
- (g) Replace estate duty by legacy duties;
- (h) Implement tax reforms to encourage savings and co-ownership schemes;
- (i) Replace company income tax and profits tax by a corporation tax.

The mover of the motion said that the present rate of tax on companies, 54 per cent was unfair; employers and heavy road users could well be required to pay carefully graduated taxes on payrolls and goods vehicles, to make up for the reduced rate of tax on profits. He made an interesting suggestion that since the consumption of sweets and soft drinks sends up the nation's dental bill, these commodities should be taxed to help pay for the dental treatment they make necessary.

Report of the Public Trustee

THE fifty-third annual report of the Office of the Public Trustee for the twelve months ended March 31st, 1961, shows a deficit of £27,032. Expenses amounted to £644,917, an increase of £25,051 over the finally ascertained expenses (£619,866) for the previous year. Receipts increased by £51,985 to £617,885.

During the year, 448 new cases of a total value of £7,748,021 were accepted, being fifty-three more in number and £2,345,765 more in value than those accepted the year before. The average value of trusteeships amounted to £16,895 compared with £16,267, and of executorships £16,895 as against £11,231. The average acceptance fee rose from £78 to £101 and the percentage of new cases under £5,000 in value fell from 59.1 per cent to 55 per cent. The number of cases completely distributed during the year was 736 compared with 839 in the previous year with an average value of £12,078 compared with

£12,346. The total value of estates completely or partially distributed was £12,026,032 compared with £14,273,865 the year before.

German Team Studies British Pay Methods

LATEST British methods of wage and salary payment were studied this week by a nine-man team of West German pay, personnel and public relations officials representing business, industry, trade unions, and the Civil Service. The visit was arranged under the auspices of the British Council, and the team examined wage and salary payment by credit transfer, the intervals between pay days, and the attitude of wage earners and trade unions to these matters.

The study tour included visits to the offices of The Institute of Municipal Treasurers and Accountants, and to the Midland Bank, Shell International Petroleum Co, the British Employers' Confederation, the General Post Office, Imperial Chemical Industries and the National Union of General and Municipal Workers.

Price-cutting in Groceries

ABOUT half the retail grocery shops in this country are believed to be cutting their prices, according to a research study undertaken by A. C. Nielsen. According to the Nielsen organization, of 146,000 retail grocery shops, 50 per cent are cutting the price of one or more items in a range covering 139 brands and sizes of coffees, soft drinks and soaps.

It may be true that the big multiples and super-markets set the pace in the fashion of price-cutting, but it is apparent that resale price maintenance is collapsing over the whole field of retail grocery. The report indicates that among multiple groceries, price-cutting is almost universal and 95 per cent of them are said to be listing one cut price or more. Among independent grocers about 75 per cent of the larger ones are cutting prices but only 31 per cent of smaller grocers are doing so. The co-operatives have been less active in price-cutting than the multiples. Nevertheless, some 59 per cent of them showed at least one case of a reduced price.

Building Orders Stay High

FIGURES now released of the amount of new orders placed with building and civil engineering contractors in the second quarter of this year show the industry's order book to be encouragingly buoyant. At £491 million there was a drop of £30 million, or 5.8 per cent, on the record level reached in the first quarter of this year, but the figures are still good. Compared with the same period of 1960 new orders went up by 9 per cent and a decline in the value of orders between the first and second quarters of the year is not uncommon. Allowing for changes in prices the decline this year between the first and second quarters appears to be less than usual.

The rate of ordering is expected to slacken, however, during the second half of this year owing to the Government's emergency measures in July. It is expected that by the end of December the total value of orders accepted for the whole year may be very similar to the total for 1960. If this should happen there will be a levelling off in building activity in 1962.

The decline in orders has already started among private developers for new industrial building and this easing off is likely to accelerate in the latter months of this year. Orders for new houses were not

very much different from a year ago, both in the private and public sector. On the other hand, recent communications from the Ministry of Housing to local authorities indicate that the building of council houses is likely to ease off and mortgage difficulties are likely to affect the demand for private houses. There has been a buoyant demand for work from public authorities in the second quarter of the year and here again the Government may have brought pressure successfully to reduce the rate of building later in the year.

This is My Life . . .

by An Industrious Accountant

CHAPTER 91

I'VE been rather worried recently. I've discovered something nerve-wracking, something that looms threateningly over the menaced head of every efficient chief accountant in industry. In short, I'm apparently redundant.

Logically, it's the obvious result of the present trend towards increased delegation, in obedience to which ruling principle we're all training our subordinates to handle problems at their own discretion; to stand four-square on their own two feet; to have able replacements available immediately for each member of the top management team. That's the new philosophy. That's how we free our managers from routine duties, enabling them to become eligible for promotion. But suppose there is no promotional outlet available, what then? They're out on the end of a limb.

The first straw to show how the tornado was blowing up appeared last week when I had a bright idea, I thought, which should improve our punched-card procedure. I was fairly expert on punched cards once, but time was limited so we trained the office manager to take over. He was rather confused at first, but soon displayed a real flair for this sort of mechanical work; now he handles it admirably. We went down to the punched-card section, the operators assembled, and I outlined the new idea enthusiastically. There was a short silence. I was just thinking that the machines had become relatively unfamiliar since my early days, all walled in mysteriously so that the interiors are hidden – rather confusing in fact – when the tabulator operator, a real bright girl, spoke up smilingly: 'It would never work, sir; the set-up for columns 31/32 makes it impossible.'

The office manager consoled me nicely. 'It was a good thought, all the same,' he said magnanimously. 'We might use it some time.' They all nodded, and I

realized that I was the tyro of the group; I was way behind them on this job.

So I dropped in on the chief ledger clerk to discuss our outstanding accounts, but I needn't have bothered. The sum total was below the quota figure, the sectional controls balanced to the penny, the credit limits were closely watched. Mind you, it hasn't always been so, but the chief ledger clerk has improved. He was on top of his job; he needed no supervision; in fact, he should be graded higher and given a greater measure of autonomy.

Our departmental accountant was waiting with a voluminous report on the last quarter's net profits when I returned to my room. It was a masterly document. He tapped his pipe, blew a long grey column of smoke in the air, and settled back in his chair in plump satisfaction, really pleased with his achievement. There were the last four quarters' sales, stocks, gross and net profits, percentages on sales and on capital investments, etc., all laid out in succinct style, with forecasts of results to the year's end linked by terse and constructive comments. We've had the production of this sort of report planned as one of our targets for some time; it's a wealth of information for the board; the directors have all the data that they need now.

The interesting point is that the accountant completed it entirely in his own department, without needing to refer up the line. He has graduated with honours; the results show it.

Our internal auditor, that one-time tactless youth, thrust a smiling head round the half-open door. 'I've done that report on the shirt factory's outside travellers,' he called. Then he waxed confidential. 'I was going to write that they're much more interested in obtaining orders than in collecting remittances, but I remembered that you don't like sarcasm. So I just said that there's an increased awareness of the vital importance of credit ratings being manifested. That's better, isn't it?'

He's graduated too; he's able to use his head. But it looks like the point of no return for me; what happens when my staff are good enough to do without me? It's just as well that we're planning an expansion next year, to keep them busy; perhaps I can now concentrate on my own primary duty of helping my directors.

Finance and Commerce

G.E.C.

THIS week's reprint includes the 'Group statistical information' with the accounts of The General Electric Co Ltd, for the year ended March 31st, 1961. G.E.C. has been something of a 'lame dog' in the heavy electrical industry and its lameness is seen in the declining percentage of profits to sales shown in the statistics.

Two factors, states the directors' report, are mainly responsible for the fall in profits. In the first place, heavy engineering margins are meagre and this part of the company's activities has contributed little to the year's earnings. Secondly, the 'extremely unsatisfactory state of trade' in the radio, television and domestic equipment industries has resulted in 'substantial losses'.

In view of the company's increasing contract operations, the directors deem it wise to nominate part of the general reserves 'as an insurance against contingencies which may occur in future in any part of the contract field' and so a reserve against contract contingencies has been set up with £3 million taken from reserve against future stock depreciation 'pending a complete reorganization of the reserves which is under consideration for adoption next year'.

Meanwhile, the board of the company has undergone substantial change. Sir Leslie Gamage has retired from the chair after forty-two years with the company, and Mr A. L. G. Lindley has been elected chairman and managing director. Among the several new-comers to the board there is also Mr E. H. Davison, F.C.A., as director of finance. To strengthen the company's management, a management committee of executive directors has been formed.

Glum though this G.E.C. report and accounts may be in the matter of the business and its results, the annual publication in form and content is a well drafted document. The 'Group statistical information' with its percentage of profit to sales is but one indication of this.

No Comparison

MR ANTHONY M. BROWNE, chairman of Combined Electrical Manufacturers Ltd, makes reference, in his statement with the company's first accounts, to the fact that there are no comparable figures in the balance sheet. The company was formed a year ago to amalgamate Hackbridge & Hewitt Electric Co Ltd and Switchgear & Cowans Ltd and their subsidiaries.

Mr Browne points out that when the company was

THE GENERAL ELECTRIC COMPANY LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account FOR THE YEAR ENDED 31ST MARCH 1961

	1961	1960
GROSS INCOME FROM SALES	£118,595,000	£116,933,000
PROFIT ON TRADING (note 1)	£2,892,209	£4,530,766
ADD: Income from trade investments	366,495	282,407
	3,258,704	4,813,173
DEDUCT: Taxation (note 2)	1,881,027	2,280,789
GROUP PROFIT after taxation	1,377,677	2,532,384
DEDUCT: Interests of outside shareholders of subsidiary companies	282,876	210,249
CONSOLIDATED PROFIT for the year, attributable to Holding Company (note 4)	1,094,801	2,322,135
Dividends on Preference stocks of the Holding Company (note 3)	206,413	206,413
	888,388	2,115,722
Dividends on Ordinary Stock of the Holding Company (note 3)	1,102,500	1,102,500
	214,112	1,013,222
Net Income relating to previous years (note 5)	51,555	390,868
Profits retained (note 8)	£162,557	£1,404,090

This account should be read in conjunction with the notes on pages [446]

Consolidated Balance Sheet 31ST MARCH 1961

CAPITAL EMPLOYED	1961	1960
Secured loans	£2,283,705	£2,146,858
Unsecured loan stocks (note 6)	20,000,000	20,000,000
Interests of outside shareholders of subsidiary companies	1,640,457	1,274,352
Preference capital (note 7)	5,600,000	5,600,000
Taxation deferred by capital allowances	1,149,755	1,279,850
	30,673,917	30,301,060
Ordinary capital (note 7)	18,000,000	18,000,000
Capital reserves (note 8)	12,240,967	11,892,718
Revenue reserves (note 8)	27,372,975	27,533,385
Attributable to Ordinary capital	57,613,942	57,426,103
	£88,287,859	£87,727,163
EMPLOYMENT OF CAPITAL		
CURRENT ASSETS		
Cash	£2,072,661	£2,527,244
Marketable securities	71,456	70,355
Market value £160,844 (£130,819)		
Trade and other debtors after making provision for doubtful debts	34,173,671	31,527,522
Stocks of raw materials, work in progress and manufactured goods at the lower of cost or net realisable value, less receipts on account	59,965,920	49,988,890
	96,283,708	84,114,011
CURRENT LIABILITIES		
Bank overdrafts	11,236,396	426,422
Acceptance credits	2,000,000	—
Trade and other creditors	24,131,757	21,665,093
Provision for taxation including income tax 1961-62	1,480,339	2,135,656
Provision for liabilities, the amounts of which are estimated	2,938,231	2,958,039
Preference and ordinary dividends	1,205,706	1,194,462
	42,992,429	28,379,672
NET CURRENT ASSETS	53,291,279	55,734,339
FIXED ASSETS (note 9)	31,629,933	28,817,544
TRADE INVESTMENTS (note 10)	3,366,647	3,175,280
	£88,287,859	£87,727,163

A. L. G. LINDLEY }
TOBY LOW } Directors

These accounts should be read in conjunction with the notes on pages [446]

THE GENERAL ELECTRIC COMPANY LIMITED

Notes on the Consolidated
and Holding Company's Accounts

PROFIT AND LOSS ACCOUNT

1. PROFIT ON TRADING

The profit on trading is arrived at after charging:—
Depreciation
Remuneration of directors of the Holding Company—
Fees
Management (including pension fund contributions)
Compensation paid to two directors on vacating office as executives
Remuneration of auditors of the Holding Company
Contribution to pension fund
Provision for liabilities, the amounts of which are estimated
Provision for depreciation of trade investments
Interest on fixed loans

	1961	1960
	£3,123,299	£2,928,987
Fees	6,500	8,500
Management (including pension fund contributions)	107,012	122,010
Compensation paid to two directors on vacating office as executives	—	27,700
Remuneration of auditors of the Holding Company	28,440	25,000
Contribution to pension fund	832,415	731,796
Provision for liabilities, the amounts of which are estimated	1,069,716	1,590,984
Provision for depreciation of trade investments	266,554	5,146
Interest on fixed loans	1,192,927	1,082,983
	<u>£6,626,863</u>	<u>£6,543,106</u>

2. TAXATION

United Kingdom taxation based on the profits for the year:—
Profits tax
Income tax
Overseas taxation

	£357,042	£362,305
Profits tax	844,840	1,424,810
Income tax	679,145	493,674
Overseas taxation	<u>£1,881,027</u>	<u>£2,280,789</u>

The charge for U.K. taxation is decreased by spreading the capital allowances to equate them with depreciation written off and is further reduced by investment allowances of £407,341 (£260,028).

3. DIVIDENDS

Dividends on the Preference stocks of the Holding Company, less income tax:—
6½% "A" Preference stock
7½% "B" Preference stock
4½% "C" Preference stock

	£71,663	£71,663
6½% "A" Preference stock	62,687	87,487
7½% "B" Preference stock	52,063	52,063
4½% "C" Preference stock	<u>£206,413</u>	<u>£206,413</u>

Dividends on the Ordinary stock of the Holding Company, less income tax:—
Interim dividends of 3% and 7½% (3%)
Proposed final dividend—nil (7½%)

	£1,102,500	£330,750
Interim dividends of 3% and 7½% (3%)	—	771,750
Proposed final dividend—nil (7½%)	<u>£1,102,500</u>	<u>£1,102,500</u>

4. £950,885 (£2,003,657) of the Consolidated Profit for the year has been dealt with in the accounts of the Holding Company.

5. NET INCOME RELATING TO PREVIOUS YEARS

Provisions no longer required
Other income
United Kingdom taxation

	1961	1960
Provisions no longer required	£23,847	£86,748
Other income	5,297	44,639
United Kingdom taxation	33,005	259,481
	<u>£51,555</u>	<u>£390,868</u>
	48,702	345,076

of which were dealt with in the accounts of the Holding Company

BALANCE SHEET

6. UNSECURED LOAN STOCK

4% Unsecured loan stock 1975/80
6% Unsecured loan stock 1976/81
6% Unsecured loan stock 1979/84

	1961	1960
4% Unsecured loan stock 1975/80	£6,000,000	£6,000,000
6% Unsecured loan stock 1976/81	6,000,000	6,000,000
6% Unsecured loan stock 1979/84	8,000,000	8,000,000
	<u>£20,000,000</u>	<u>£20,000,000</u>

BALANCE SHEET (Continued)

7. SHARE CAPITAL—Authorised and Issued

6½% "A" Cumulative Preference stock	1961	1960
7½% "B" Cumulative Preference stock	£1,800,000	£1,800,000
4½% "C" Cumulative Preference stock	1,800,000	1,800,000
Ordinary stock	2,000,000	2,000,000
	<u>18,000,000</u>	<u>18,000,000</u>
	<u>£23,600,000</u>	<u>£23,600,000</u>

8. RESERVES

	1961	1960	
Group	Holding Company	Group	Holding Company

Capital Reserves			
Premiums on issues of shares, less expenses	£7,286,348	£7,286,348	£7,286,348
Other reserves	4,954,619	3,245,127	3,050,420
	<u>£12,240,967</u>	<u>£10,531,475</u>	<u>£10,336,768</u>

Profits on capital account arising during the year amount to £348,249 of which £150,380 represents the Holding Company's proportion of a revaluation of buildings by a subsidiary company, totalling £390,759

Revenue Reserves

General Reserve	£11,094,305	£10,504,400	£11,092,158	£10,504,400
Reserve against future stock depreciation	2,837,870	2,007,885	5,837,870	5,007,885
Reserve against contract contingencies	3,000,000	3,000,000	—	—
Reserve for increased cost of plant replacement	5,228,438	5,043,940	5,228,438	5,043,940
Undistributed profits	5,212,362	1,935,276	5,374,919	2,342,006
	<u>£27,372,975</u>	<u>£22,491,501</u>	<u>£27,533,385</u>	<u>£22,898,231</u>

9. FIXED ASSETS

	Freshhold and leasehold land and buildings	Fixed plant and machinery	Portable plant, tools, patterns and works equipment	Furniture and office equipment	Total
Group					1961
Cost (note 8)	£19,828,114	25,154,433	6,139,784	2,732,770	£33,855,101
Depreciation	6,194,548	12,162,810	2,719,522	1,148,489	£22,225,169
	<u>£13,633,766</u>	<u>12,991,623</u>	<u>3,420,262</u>	<u>1,584,281</u>	<u>£31,629,932</u>
1960	£12,531,860	11,778,966	3,040,207	1,466,510	£28,817,543

Holding Company

Cost	£13,385,099	16,963,987	3,816,590	1,769,216	£33,569,932
Depreciation	4,463,581	8,224,244	1,484,100	669,621	£14,841,546
	<u>£8,921,518</u>	<u>8,739,743</u>	<u>2,332,490</u>	<u>1,099,595</u>	<u>£21,093,346</u>
1960	£8,789,346	8,033,344	2,133,975	1,016,569	£23,569,932

GOODWILL AND PATENTS (Group and Holding Company)

	1961	1960
	£1	£1

THE GENERAL ELECTRIC COMPANY LIMITED

BALANCE SHEET (Continued)

10. TRADE INVESTMENTS

Associated Companies

	1961	1960
Group Holding Company	Group Holding Company	
Investments at cost	£2,727,540	£2,414,485
Less provision for losses and intangible assets	109,360	93,707
	<u>2,618,180</u>	<u>2,320,778</u>
Other investments at cost	1,130,688	953,494
Less provision for depreciation	382,221	292,675
	<u>748,467</u>	<u>723,760</u>
	<u>£3,366,647</u>	<u>£3,175,280</u>
		<u>£3,044,538</u>

11. INVESTMENTS IN AND AMOUNTS OWING FROM SUBSIDIARY COMPANIES

	1961	1960
Investments at cost, less provision for losses and intangible assets	£6,581,744	£6,489,157
Loans and current accounts, less provision for losses	16,176,633	13,859,162
Less estimated profits on goods sold to subsidiary companies and remaining unsold by them at this date	321,700	353,800
Less amounts owing to subsidiary companies	15,854,933	13,505,362
	<u>602,988</u>	<u>1,477,767</u>
	<u>15,251,945</u>	<u>12,027,595</u>
	<u>£21,833,689</u>	<u>£18,516,752</u>

12. CONTINGENT LIABILITIES

The Holding Company has guaranteed in conjunction with Société Internationale Pirelli S.A., £578,900 (£584,573) Debenture stock of Pirelli-General Cable Works Limited.

13. COMMITMENTS FOR CAPITAL EXPENDITURE

	1961	1960
Group Holding Company		
	£2,885,363	£1,781,062
	<u>£2,099,430</u>	<u>£1,463,098</u>

The Company was also committed to issue 5,000,000 £1 Ordinary Shares and make a cash payment of £792,500 in connection with the purchase of Radio and Allied (Holdings) Limited.

BALANCE SHEET (Continued)

14. FOREIGN CURRENCIES

Items in foreign currencies have been converted at the rates ruling at the following dates:—
Fixed assets—at dates of acquisition.
Other assets and liabilities—at the date of the Balance Sheet.

Group Statistical Information

	1961	1960	1959	1958	1957
Home organisation sales	£87,114,000	88,343,000	80,338,000	77,447,000	73,808,000
Overseas organisation sales	31,481,000	28,590,000	27,728,000	26,963,000	24,579,000
	<u>£118,595,000</u>	<u>116,933,000</u>	<u>108,066,000</u>	<u>104,410,000</u>	<u>98,387,000</u>
Profit before taxation	£3,259,000	4,813,000	4,249,000	4,765,000	6,168,000
Percentage to sales	2.7	4.1	3.9	4.6	6.3
Exports by G.E.C. group	£18,405,000	19,813,000	19,818,000	19,658,000	20,880,000
Exports by associated companies	4,079,000	3,805,000	3,953,000	3,331,000	3,614,000
	<u>£22,484,000</u>	<u>23,618,000</u>	<u>23,771,000</u>	<u>22,989,000</u>	<u>24,494,000</u>
Salaries and wages	£40,154,000	37,914,000	37,174,000	34,781,000	30,704,000
Percentage to sales	33.9	32.4	34.4	33.3	31.2
Orders received during year	£127,891,000	118,755,000	126,444,000	129,082,000	94,228,000
Orders outstanding at year end	£149,029,000	137,863,000	132,843,000	110,053,000	81,958,000
Income tax	£1,524,000	1,919,000	1,764,000	2,212,000	2,721,000
Profits tax	£357,000	362,000	361,000	829,000	884,000
Purchase tax	£2,111,000	3,283,000	2,656,000	2,527,000	2,358,000
National insurance	£1,058,000	1,013,000	1,026,000	803,000	777,000
Rates	£461,000	468,000	257,000	253,000	240,000
Number of ordinary stockholders	37,700	37,500	36,300	35,500	34,900

formed last August, a *pro forma* statement of the net tangible assets arising on the amalgamation showed fixed assets at £1,148,000. The comparable figure this year is £1,323,000, an increase of £175,000 after £152,000 depreciation. It is important, he says, that to keep abreast of developments in the electrical industry, capital expenditure must be incurred in anticipation of those developments and the benefit of such expenditure is not always seen immediately but comes at a later date. The group has £200,000 capital commitments not provided for in the accounts, but Mr Browne shows that with £210,000 retained profits, plus £152,000 depreciation, there is, in fact, a cash flow of £360,000.

The view of profits is complicated by the fact that the profit and loss account brings in profits of subsidiaries for varying times: Hackbridge for twelve months, Switchgear for fifteen months and another section for ten months. The figure of £715,759 is estimated to be equivalent on a time basis to an annual rate of approximately £675,000. Future accounts will be based on March 31st for all constituent companies. One can, of course, appreciate the difficulties arising from such an amalgamation but it is a pity no effort has been made to relate the profits in the first accounts to what went before.

John Brown

IT is difficult to appreciate, in these enlightened days just why directors should be so shy of giving what appears to be reasonable information. At the annual meeting of John Brown & Co Ltd, for instance, Lord Aberconway, the chairman, is reported to have told shareholders that 'he did not think it would be in the interests of the company's commercial success that too much information as to the ups and downs in actual trading results of the various activities should be given in the accounts'.

This statement was apparently prompted by an investment trust representative who pointed out that the company's stock-market status was held down by the name, John Brown, being so much associated with shipbuilding. The company's industrial interests, he pointed out, were indeed wide and from the report of the meeting it appears that he invited the chairman to give the trading results of the various activities.

This, said the chairman, had been considered in the past, and he was quite prepared to have the matter considered again. He admitted that this reply - which to some extent seems to pre-judge the issue - was not necessarily the one stockbrokers and financial journalists desired, but it was the board's view and, he maintained, an honest answer to the question. What is so extraordinary about the whole thing was Lord Aberconway's agreement that the information sought by the questioner is actually available in the company files at Bush House.

CITY NOTES

TENTATIVE rallies in the stock-market continue to fall foul of unhelpful company and industrial news and also the size of new capital issue operations. International political uncertainties are, for the present, neither here nor there as a market influence.

The markets are being kept more or less on an even keel by a modest degree of trustee buying of equities. It is interesting that the Trustee Act, which was accepted as releasing many millions of money for equity support, is now tending to stem a slide in prices rather than put prices higher.

Earlier this year, share buying ahead of the Act pushed prices up to their mid-May peak. The object of the operation was to 'get in' before trustee buying pushed equity prices almost out of sight.

Circumstances, since then, have materially altered the case for equity investment. What trustee buying there is now is very much on a safety basis in recognized first-class equities.

The technical position is such that any real development of buying force would inevitably bring sharp price movements. It is, however, extremely difficult to judge when the turn for the better in market tone and sentiment will come.

RATES AND PRICES

Closing prices, Wednesday, September 27th, 1961

Tax Reserve Certificates: interest rate (12.3.61) 3½%

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills

July 21	£4 12s 5.62d%	Aug. 25	£6 14s 0.12d%
July 28	£6 13s 9.22d%	Sept. 1	£6 14s 0.50d%
Aug. 4	£6 14s 3.33d%	Sept. 8	£6 12s 10.81d%
Aug. 11	£6 14s 8.51d%	Sept. 15	£6 11s 10.99d%
Aug. 18	£6 14s 1.83d%	Sept. 22	£6 10s 6.51d%

Money Rates

Day to day	5½-6½%	Bank Bills	
7 days	5½-6%	2 months	6½-6½%
Fine Trade Bills		3 months	6½-6½%
3 months	7½-8½%	4 months	6½-6½%
4 months	7½-8½%	6 months	6½-6½%
6 months	8-9%		

Foreign Exchanges

New York	2.81½-¾	Frankfurt	11.24½-¾
Montreal	2.89½-¾	Milan	174½-¾
Amsterdam	10.15½-¾	Oslo	20.02½-¾
Brussels	140.01½-¾	Paris	13.84½-¾
Copenhagen	19.37½-¾	Zürich	12.14½-¾

Gilt-edged

Consols 4%	58½	Funding 3% 59-69	78½
Consols 2½%	38½	Savings 3% 60-70	75½
Conversion 5½% 1974	90½	Savings 3% 65-75	68
Conversion 5% 1971	88½	Savings 2½% 64-67 81	7½xd
Conversion 3½% 1969	81½	Treasury 5½% 2008-12	82½
Conversion 3½%	51½	Treasury 5% 86-89	79½
Exchequer 5½% 1966	96½	Treasury 3½% 77-80	67½
Funding 5½% 82-84	89½	Treasury 3½% 79-81	66½
Funding 4% 60-90	84½xd	Treasury 2½%	37½
Funding 3½% 99-04	56½	Victory 4%	93½
Funding 3% 66-68	80½	War Loan 3½%	53½

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for the opinions expressed.

Estate Companies

SIR, - In the interesting article on 'Estate Companies' (August 26th issue), Example 11 shows directors' remuneration allowable under Section 425, amounting to £1,712, which would appear unreasonably high, being over 70 per cent of the rents, £2,428.

Does your contributor consider that either the Inspector or Commissioners would really allow £1,712 having regard to the circumstances outlined in the article, in particular the fact that all properties were let on fully repairing leases?

Yours faithfully,

DEREK E. HUDSON, A.C.A.

Harefield, Middx.

[Our contributor writes: 'Rents as a measure of allowable directors' remuneration are relevant only in relation to property management and in Example II only 20 per cent (£428) is allocated to maintenance claims. It is noteworthy that while Section 425 requires proof to the satisfaction of the Special Commissioners that tax has been borne on income, no such test is required of the "sums disbursed as expenses of management". The wide latitude extended to taxpayers by Section 425 contrasts sharply with the restricted character of the deductions permitted by Section 262 (where the actual income of investment companies has to be computed for the purposes of a surtax direction), namely, "such sums disbursed by the company as expenses of management as the Special Commissioners consider reasonable, having regard to the requirements of the company's business and, in the case of director's fees or other payments for services, to the actual services rendered to the company". It follows that the only way in which an Inspector can exclude remuneration from a Section 425 claim is by contending that it relates to property management.']

Should Britain Decimalize?

SIR, - I regret that Mr Clayton does not seem to have shown me the courtesy of reading my article carefully before attempting to write a rejoinder. Had this been done, then his article in your issue of September 16th,

- (a) might have been framed in a way that responded better to my plea that the debate should be raised to a higher level - with reasoned thinking and without emotion;
- (b) might not have repeated, as though gospel, some of the contentions which I was at some pains to show were suspect;
- (c) might not have put into my mouth words that were not mine.

I will cite three examples of the last-mentioned error. First, Mr Clayton attributes to me an estimate

of some £150 million as the cost of conversion; nowhere did I make any estimate, nor did the figure of £150 million appear. Secondly, my suggestion 'It is necessary to inquire whether anything will be lost in mental development by less instruction in fractions and more concentration on decimals' is freely translated by Mr Clayton to my 'exhortation to educationalists to retain vulgar fractions as a form of mental discipline'. Thirdly, Mr Clayton refers to my 'obstinate clinging to our anachronistic systems of weights, measures and currency'. In fact I expressed no opinion on weights and measures, confining myself only to currency.

Yours faithfully,

J. A. HUNSWORTH.

Thornton Heath, Surrey.

[Mr Clayton writes: 'Mr Hunsworth's estimate of the costs of the change which I interpreted at "some £150 million" was given in the following words:

"The lowest estimate suggests the equivalent of 6d on the standard rate of income tax for one year."

Mr Hunsworth in his article also made many references to weights and measures as well as currency including the expression of opinion:

"And, of course, any change, to have maximum impact, would need to involve weights and measures as well as pounds, shillings and pence."']

Just as Knowledgeable

SIR - As one of that peculiar breed of 'off beat' accountants who have qualified solely in industry or commerce I could well be one of those whom Mr A. B. Snow had in mind when, in composing his address for the Institute's Oxford Course (reproduced in *The Accountant* of September 9th, 16th and 23rd), he wrote: 'In the case of the larger private company which can afford to employ a qualified accountant that official is often so very much immersed in other work that he has no time to provide services of that nature (budgets etc.) or - let us face the fact - he may have left the practising side of the profession long before his knowledge and ability had had time to mature and he is quite unable to provide them.'

May I first say that I have the greatest admiration for my practising colleagues and willingly give them best when it comes to matters of taxation, incomplete records, liquidations and the other mysterious rites which they perform, but I find the idea that the average practitioner on his lofty rearward-facing perch encompasses within his knowledge and experience all that is required to equip him for instant duty in industry or commerce with its 'wanted yesterday - plus or minus 10 per cent' approach, little short of ludicrous.

My guess would be that the average industrial accountant is, within his sphere, every bit as knowledgeable and able as his opposite number in the profession but has had to adapt his thinking to the requirements of management (appropos of which Mr Snow should read 'An Industrious Accountant' in the same issue (September 16th) as that in which

Part II of his address is reprinted) rather than have his path smoothed beforehand as when 'the auditors are coming'.

No, Mr Snow, I have had a reasonably wide experience of dealing with my practising colleagues but I have yet to meet (and this includes the representatives of some of the larger firms) one of them, apart from the relatively few engaged on consultancy work, who fully appreciates the industrial approach.

Yours faithfully,
IGNORAMOUS.

The British Investor and India

SIR, - With reference to the interesting article by Mr J. D. Peterkin, M.B.E., M.A., LL.B., A.T.I.I., in the August 12th issue of *The Accountant* on the subject of 'The British investor and India', I am unable to reconcile the wording of paragraph 3 in the right-hand column of the third page, with the information set out in the table on the following page. The paragraph to which I refer commences:

'It will be seen that the United Kingdom investor

in an Indian subsidiary formed before April 1st 1959 . . . and it would seem that the wording of the paragraph in question is incorrect.

I should be glad to have the author's comments on this point.

Yours faithfully,

L. H. BEARE, B.COM., F.C.A.,

Managing Director,

Studley, Redditch. NEEDLE INDUSTRIES LTD.

[Mr Peterkin writes: 'Your correspondent is quite right; the wording of the first part of the offending sentence should be:

'It will be seen that the United Kingdom investor in an Indian subsidiary formed after April 1st, 1961, is to lose 5.5 per cent in net return, while his counterpart . . .

The comparison in each case is, of course, with the equivalent type company formed before April 1st, 1959.

I regret I overlooked this in proof reading. The main thesis, however, remains unaffected. India discourages both types of inter-corporate investment by her penal rates of tax, and by this year's increase to 40 per cent in the case of an Indian subsidiary company she discourages in particular the holding company device.']

LONDON CHARTERED ACCOUNTANT STUDENTS' OXFORD COURSE

The largest week-end course which the London Chartered Accountant Students' Society has so far organized took 262 students to Balliol and Trinity Colleges, Oxford, last week-end. The main object of the programme was to bring articled clerks together for as much discussion and exchange of views as possible. For this purpose the course, which was under the chairmanship of Mr W. K. Wells, B.A., F.C.A., the honorary treasurer of the Students' Society, was divided into seventeen groups of about sixteen students each, and the time-table provided for eight hours of discussion. In fact, these discussions went on into the early hours of the morning in many groups, so that the total time actually spent in discussion was much longer than indicated in the programme.

Parker Report Discussed

The principal subject for discussion provided by the lecture programme was the Parker Report. Mr Parker himself arranged and conducted a debate on the main points of the report, as well as presiding over the formal dinners in Balliol and Trinity Colleges as President of the Students' Society. The Master of Balliol, Sir David Lindsay Keir, M.A., was the principal guest at the Balliol dinner.

In addition to the Parker Report, the course heard a lively discussion of the standing problem, 'Practice or industry' as a career, between Mr Stanley Kitchen, F.C.A., and Mr Stanley Dixon, M.A., F.C.A., and also lectures on 'Management accounting in practice' by Mr F. T. Hunter, F.C.A., F.C.W.A., 'What of the Companies Act?' by Mr Hugh T. Nicholson, F.C.A., and 'Britain, the Six and the Seven' by Mr A. R. Hiersic, M.Sc.(ECON.), B.COM. All these subjects provided much controversial material for the main business of the course - discussion.

Other less academic events which had a part in a balanced week-end were a course service in Balliol College Chapel on Sunday morning, a dance on Saturday evening and a punting race on Saturday afternoon for which rules were few and no holds barred.

As a result of these four days, from Thursday to Sunday, 262 students have without a doubt gained a lively insight into what their profession really is - a body of human beings with a common skill, a common humanity and a common professional responsibility to each other. The profession should be grateful to the progressive principals who gave their support, especially the many who paid their articled clerks' fees for the course.

JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SW1

Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS J. W. DAVIDSON, COOKSON & Co, Chartered Accountants, of 515 Martins Bank Buildings, 6 Water Street, Liverpool 2, announce that their two senior partners, Mr SIDNEY COLVIN, F.C.A., and Mr FREDERICK COOK, F.C.A., today retire from the partnership. The practice will be continued by the remaining partners under the same name, and Mr COLVIN and Mr COOK will be available in connection with the work with which they were identified.

MESSRS COOPER BROTHERS & Co and COOPERS & LYBRAND announce that as from October 1st, 1961, they have taken into partnership in London, Mr ALEXANDER DUNCAN GORDON, M.A., A.C.A.

MR A. LERSE, F.C.A., practising as A. LERSE & Co, Chartered Accountants, announces that he has become associated with MESSRS ROOKE, LANE & Co, Chartered Accountants. As from October 1st, 1961, he will carry on his practice from their address, 2 Norfolk Street, Strand, London WC2.

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co, Chartered Accountants, announce that they have admitted into their London partnership Mr DAVID F. PRATTEN, F.C.A., as from October 1st, 1961. Mr PRATTEN has been a partner in the South Wales firm since October 1st, 1955. Prior to that, he was a member of the London office staff for some years. They also announce that they have admitted into their South Wales partnership Mr ARTHUR F. HANNAM, A.C.A., as from October 1st, 1961. Mr HANNAM has been a member of the London office staff for many years.

OBITUARY

Sir Ellis Hunter, G.B.E.

It is with regret that we record the death on September 21st at the age of 69, of Sir Ellis Hunter, G.B.E., chairman of Dorman Long & Co Ltd.

Born at Great Ayton, Yorkshire, and educated at Middlesbrough High School, Sir Ellis was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1913 and was elected a fellow in 1927. During the First World War he served at the Ministry of Munitions in connection with extensions to iron and steel works and limitation of profits. In 1922 he became a local partner in the firm of W. B. Peat & Co at Leeds and York and a general partner in the firm, then renamed Peat, Marwick, Mitchell & Co, in 1928.

Sir Ellis joined the board of Dorman Long as deputy chairman in 1938 and was appointed managing director shortly afterwards, retaining the latter post

until last March. He succeeded to the chairmanship of the company in 1948 when he also became chairman of two associated constructional engineering companies, Redpath Brown & Co Ltd, and the Tee Side Bridge & Engineering Works Ltd. He was knighted in the same year and in March 1949 relinquished his membership of the Institute in order to devote the whole of his time to the iron and steel industry.

In 1945 Sir Ellis was elected the first chairman of the British Steel Producers' Conference and also that year became President of the British Iron & Steel Federation. He remained the Federation's President until 1953 - his tenure of office being longer than that of any of his predecessors. As President of the Federation, he was largely responsible for drawing up the £168 million seven-year plan for the development of the iron and steel industry which was published as a White Paper in 1946.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Taxation and Research Committee

The 116th meeting of the Taxation and Research Committee was held at the Institute on Thursday, September 21st, 1961, at 2 p.m.

Present: Mr G. N. Hunter (in the chair); Messrs F. W. Allaway, G. R. Appleyard, J. T. Barraclough, R. D. R. Bateman, M.B.E., C. J. M. Bennett, R. P. Brown, K. A. Buxton, J. Cartner, L. H. Clark, S. M. Duncan, N. Cassleton Elliott, E. S. Foden, C. R. P. Goodwin, R. O. A. Keel, H. Kirton, J. W. Margetts, G. P. Morgan-Jones, R. D. Pearce, H. Robinson, C. Romer-Lee, H. G. Sergeant, H. C. Shaw, H. Eden Smith, W. Shuttleworth, D. E. T. Tanfield, C. C. Taylor, A. G. Thomas, J. G. Vaughan, and D. T. Veale, with the two Assistant Secretaries.

The late Mr L. J. H. Noyes

The Committee heard with great regret of the death on July 29th of Mr L. J. H. Noyes, Secretary to the Committee since 1954. Tribute was paid to the outstanding services rendered both to the Committee and the profession generally by Mr Noyes, and the Committee expressed its sympathy with his family. The Committee stood in silence as a token of respect.

Standing Sub-committees

Reports were received from the following Standing Sub-committees:

General Advisory.
Management Accounting.
Taxation.
Planning.

MOTOR — FIRE — CONSEQUENTIAL LOSS
MOTOR UNION INSURANCE **L^{TD}**
COMPANY
10 ST JAMES'S STREET, LONDON, SW1

Ad Hoc Sub-committees

Progress reports were received from three special sub-committees.

Membership

The following appointments to membership of the Committee for the year commencing October 1st, 1961, were reported:

Nominated by the Council:

Messrs G. R. Appleyard, F.C.A., L. H. Clark, F.C.A., S. M. Duncan, F.C.A., W. F. Edwards, F.C.A., R. O. A. Keel, F.C.A., J. W. Margetts, F.C.A., G. P. Morgan-Jones, M.A., F.C.A., L. Pells, M.A., F.C.A., J. Perfect, F.C.A., D. W. Robertson, F.C.A., C. Romer-Lee, M.A., F.C.A., J. G. Vaughan, F.C.A.

Nominated by District Societies' Committees:

Birmingham: Messrs E. J. Newman, M.A., F.C.A., and D. E. T. Tanfield, F.C.A.

Bristol: Messrs R. A. Chermiside, F.C.A., and T. B. Pritchard, F.C.A.

East Anglia: Messrs H. Robinson, F.C.A., and B. D. Shaw, F.C.A.

Hull: Messrs H. G. Sergeant, F.C.A., and H. C. Shaw, F.C.A.

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London: Messrs F. W. Allaway, F.C.A., C. J. M. Bennett, F.C.A., N. Cassleton Elliott, M.A., F.C.A., A. P. Hughes, F.C.A., B. A. Maynard, M.A., F.C.A., and D. C. Urry, F.C.A.

Manchester: Messrs W. R. Carter, M.A., F.C.A., and C. Yates Lloyd, F.C.A.

Northern: Messrs H. Kirton, F.C.A., and S. A. Middleton, F.C.A.

Nottingham: Messrs K. A. Buxton, F.C.A., and J. S. F. Hill, F.C.A.

Sheffield: Mr A. G. Thomas, F.C.A. (One further nomination to be received.)

South Eastern: Messrs C. R. P. Goodwin, F.C.A., and R. D. Pearce, F.C.A.

South Wales: Messrs R. P. Brown, F.C.A., and E. S. Foden, F.C.A.

Co-opted by the Taxation and Research Committee:

Messrs R. D. R. Bateman, M.B.E., F.C.A., J. Cartner, F.C.A., S. Kitchen, F.C.A., G. N. Hunter, F.C.A., A. H. Proud, F.C.A., E. C. Sayers, F.C.A., H. Eden Smith, F.C.A., and G. H. Yarnell, F.C.A.

Chairman and Vice-Chairman

Mr J. Cartner, F.C.A., and Mr S. M. Duncan, F.C.A., were unanimously appointed Chairman and Vice-Chairman respectively of the Taxation and Research Committee for the year commencing October 1st, 1961.

Sub-committees 1961-62

It was decided that as from October 1st, 1961, the detailed work of the Committee should be carried on by special *ad hoc* sub-committees and that all the standing sub-committees except the Planning Sub-committee should cease to exist as such.

Future Meetings

The next meeting of the Committee was fixed for Thursday, October 26th, 1961. A further meeting in 1961 was provisionally fixed for Thursday, December 14th, 1961.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 1 p.m. on Monday next, in the vestry of St Mary Woolnoth Church, King William Street, EC3. The scripture for reading and thought will be John, Chapter 14, verses 16 to 23 (The promise of the Spirit).

SW. LONDON DISCUSSION GROUP

The first meeting of the 1961-62 session of the South West London Chartered Accountants' Discussion Group will be held at the Kingston Hotel, Kingston upon Thames, on Monday next at 6.45 p.m. The discussion will be opened by Mr S. F. Every, F.C.A., chairman of the Group, and the subject will be 'The profession or commerce - is the outlook different?' New members will be specially welcome, and no prior notice is required. The hon. secretary of the group is Mr T. C. Backshell, F.C.A., Charter House, Clarendon Road, Surbiton. Telephone: Elmbridge 4052.

**THE INSTITUTE OF INTERNAL AUDITORS
London Chapter**

The next meeting of the London Chapter of The Institute of Internal Auditors will take place on Wednesday, October 4th, at 6 p.m. at the Kingsley Hotel, Bloomsbury Way, London WC1, when Mr E. N. Judge, of the South Eastern Electricity Board, will address the Chapter on 'Internal auditing in local government'. The secretary of the Chapter is Mr J. H. Protheroe, chief internal auditor, The British Oxygen Co Ltd, Bridgewater House, Cleveland Row, London SW1.

MANAGEMENT ACCOUNTING COURSES

'Introduction to management accountancy' will be the theme of a series of three one-day courses to be held at the Kensington Palace Hotel, London SW1, from October 10th-12th.

The courses, which will be presented by Dr J. M. S. Risk, B.COM., PH.D., C.A., F.C.I.S., F.C.W.A., F.B.I.M., comprise 'Higher control and business charts', 'Company economics' and 'Budgetary control and standard costs'.

Further particulars may be obtained from Management Courses Ltd, 18 Hanover Street, London W1.

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WHETHER the full implications of THE CHANCELLOR OF THE EXCHEQUER's proposals to both sides of industry to join with selected Ministers in the formation of a National Economic Development Council have sunk into the public mind is doubtful; moreover, does THE CHANCELLOR himself realize the potential significance of his scheme?

The declared purpose of the proposed twenty-member body is to provide 'new and more effective machinery for the co-ordination of plans and forecasts for the main sectors of the economy'. The council will also study all investment plans in the public and private sectors to see 'how in the aggregate they contribute to, and fit in with, the prospects of the economy as a whole'. The operative word is 'study'; after all, is it seriously suggested that the Treasury and the Government's economic secretariat have not been doing this ever since 1945? And is it really suggested that a better co-ordination of the country's statistical planning will greatly contribute to the cure of Britain's economic *malaise*?

According to THE CHANCELLOR's letter sent to the T.U.C. and employers' organizations last week, 'experience has shown the need for a closer link between Government and industry in order to create a climate favourable to expansion and to make possible effective action to correct weaknesses in our economic structure'. Just how much closer is it possible for industry and the Government to get in economic affairs? Is there any lack of channels of communication? Has either side found it impossible in recent years to convey its views to the other? Responsibility, states THE CHANCELLOR, for final decisions on policy will rest with the Government. And just where else, may one ask, ought it to lie? Presumably the Government will accept its responsibility for policy in a way that it did not - for obvious reasons - accept responsibility or the need to act on the recommendations of the first report of the Council on Prices, Productivity and Incomes.

Perhaps it will be possible for the proposed tripartite council to evolve a policy acceptable to all parties - the world knows that the country needs one. What happens, however, if its implementation means that public and private interests conflict? To take just one example: whose views on redundancy and wages are to be followed? Those of the rank and file of the unions, the T.U.C., the Government or the employers? Achieving a 'policy' on this issue should make an interesting first task for the new council. Then will come the 64,000 dollar question: How does the Government propose to enforce it?

Capital for Economic Growth

IN Canada the average annual income per head is over \$1,500; in the United States it is over \$1,100, yet in countries of Asia and Africa it is as low as \$55. These figures alone, as the President of the Board of Trade, MR REGINALD MAUDLING, pointed out in his address at the recent annual conference of the Canadian Institute of Chartered Accountants, explain much of the world's present problems. They also serve to demonstrate the magnitude of the problem still confronting the advanced economies as they endeavour to accelerate the economic growth of the 'have not' nations. The need is for capital; more capital than is at present available from all the various sources. In the past the profit motive stimulated massive private investment which opened up the world. Britain alone, according to MR MAUDLING, had by 1914 invested the sum of \$40,000 million (at current values) throughout the world and of this one-fifth was in the United States, 14 per cent in Canada and 11 per cent in Australasia. During 1958-60 British investment in the United States and Canada exceeded \$300 million, while in the post-war period her grants and loans to developing countries have totalled over £1,100 million.

A great deal of investment throughout the world is still undertaken in the traditional form whereby companies invest overseas to exploit indigenous resources – in particular, oil. Yet the fact remains that public international investment is increasing. The emergent territories prefer their aid to come from the international organizations, without too many strings or the stigma of 'capitalist exploitation' attached to the aid. While private American and British investors have tended to restrict themselves to the developed economies, their Governments have made substantial sums available to the international organizations such as the International Bank for Reconstruction and Development, better known as the World Bank, or to international consortia, such as the group financing the Indus Development Scheme.

Whatever the form that investment may take, its scale is inevitably restricted to the amount that the lending country can afford. Even the United States has reached the stage where she is

expecting Europe, with its new-found economic strength, to relieve her of some of her willingly-borne burden of providing funds for developing the under-developed territories. For Britain, the problem is greater still, for as recent speeches have made all too clear, her Commonwealth partners still depend upon London for most of their capital needs. To meet her obligations *vis-à-vis* the Commonwealth – much less those in respect of the uncommitted nations even more in need of aid – Britain must earn an overseas current account surplus of over £500 million a year. The gap between aim and achievement is evident to the world at large.

The recent conference at Vienna of the International Monetary Fund and World Bank member-countries produced some criticism of the misallocation of funds by the receiving countries, whose problems have been sympathetically but cogently discussed in a recent book by a Canadian economist concerned with development projects.¹ As MR J. C. WALKER, F.C.A., explains in his Summer Course paper, reproduced in this journal,² the efficient allocation of resources is not easy to determine even in advanced economies by trained personnel. According to MR BRYCE, the problem is the need for all concerned to ensure that 'projects be economically, technically and financially sound, and of value to the national economy of the country where they are established'. How many of the countries into which millions of pounds of development aid has been poured could claim that as much as three-quarters of their funds had been so allocated? And how much more has been dissipated in what MR BRYCE terms 'white elephant projects' which possess 'some glamorous appeal which passes for real worth, thus blinding those involved as to their inherent unsoundness'.

¹ *Industrial Development: A guide for accelerating economic growth*, by Murray D. Bryce, McGraw-Hill Publishing Co Ltd, London, 58s net.

² 'The Employment of Capital', the first part of which was reproduced in last week's issue of *The Accountant*, is concluded in this issue. Readers to whom Mr Walker's paper is of especial interest, will find relevant issues raised in Mr Bryce's study of under-developed economies.

Profit – Fact or Fiction? – I

by M. J. GREENER, B.A., A.C.A.

Lecturer in Accounting, Staffordshire College of Commerce

IN its examination of the possibility of adjusting ledger balances by means of a price index to take account of changes in the purchasing power of money and thereby injecting some trace of reality into final accounts, The Institute of Chartered Accountants in England and Wales makes the following statement:

'If, however, the index method were accepted as a means of introducing a new conception of profit, it would carry implications which extend far beyond accounting matters.'¹

Bewildering Implications

This statement is a little curious inasmuch as the words 'new conception of profit' are fraught with any number of bewildering implications, not the least of which being that profit may, until now, have been entirely misconceived.

To speak of new methods of measuring profit would be one thing for it would indicate an awareness of the thing to be measured – allowing merely for differences of opinion as to the precise method of mensuration to be used. To speak, on the other hand, of new conceptions of profit is here equivalent to an admission by a man who for years has been seeking to establish the height of a mountain that he has never been sure which mountain he was meant to be measuring.

Does this confusion really exist? It would be reassuring to think that the Institute was merely guilty of an unfortunate choice in words. The wish is father to the thought. The truth of the matter is surely that somewhere in the forest of sound accounting principles the idea of profit, as something real and measurable, has quietly gone to earth. This accusation could no doubt soon be substantiated by taking a representative number of accountants and asking each separately what he understands by the word 'profit'. The result should make interesting reading. In the event one would probably be forced to conclude that the profession had sat at the feet of Humpty-dumpty for far too long.

Theoretically, there should be no difficulty in defining profit both simply and satisfactorily as being an increase in wealth over a defined period

or, alternatively, as the increase in net assets over that period. Probably such a definition would immediately be classed as an over-simplification. It is, of course, nothing of the sort. It is merely a statement of fact. Difficulties will arise in assessing the relevant increase but that is a matter of means not of ends.

One particular criticism of such a textbook definition may be that in practice it is meaningless to talk of the value of net assets as something definite for this value can vary enormously according, for example, as to whether the assets are considered in total on a going concern basis, or according to their estimated value in a piecemeal realization. On analysis such an objection is seen to be irrelevant. It is obvious, or should be, that when we speak of the value of an object we must refer that object to a particular person or place at a particular time. Though the intrinsic value may mark the minimum, the real worth can only normally be measured in terms of the purpose for which the object is used.

Consequently, in considering the net assets of a business, we are concerned with the value of those assets to that business and not their market value or value to third parties. It should be noted in passing that this is a general principle and is not restricted in application to conditions in which asset values are distorted by the influence of an unstable currency.

Profit – or Loss?

A second and far more pertinent criticism is that comparisons of net assets 'before and after' would give a nominal profit which, in inflationary conditions, may actually be non-existent and which may in some cases mask a real loss. Here one can only reply that any intelligent computation of profit can only be made in real terms and, from an accounting viewpoint, it will be necessary to allow for all general (as opposed to particular) movements in prices before arriving at any conclusion.

In view of these criticisms it is necessary to modify our earlier definition and to declare that profit is represented by the increase, over a period of time, in the value to a business of its net assets; that value being measured in real terms.

¹ Recommendation No. 15 – 'Accounting in relation to changes in the purchasing power of money' (paragraph 15).

At this point, having arrived at a general, though skeleton, definition, it is instructive to consider how far that nebulous concept 'best accounting practice' aids and abets in achieving the declared objective, which is the ascertainment of a true figure of profit. The answer can only be: 'Not very far.' A first examination of the facts will indicate some of the ways in which, by the application of accepted principles, the idea of profit has tended to become so debased as to be almost meaningless. A second examination may help to throw a little light on that most interesting paradox of an industrial age, how industry can, on the one hand, be thwarted in its desire to expand by lack of available funds and, on the other, be accused of accumulating profits 'beyond the dreams of avarice'.

'Best Practice' May Hinder

The assertion has been made that best accounting practice in no way helps to arrive at a meaningful profit figure. Before going on to defend this assertion it may be suggested that, far from helping in this matter, best practice tends rather to hinder the accountant in attaining the desired end. Consider three general principles (or rather two principles and a prejudice) applied generously within the profession:

- (1) Surpluses revealed by a revaluation of fixed or current assets are not to be dealt with as profits unless and until they are realized in exchange.
- (2) Any surplus arising from the sale of a fixed asset, inasmuch as it does not represent excess depreciation previously written off, is a capital profit and, as such, is not normally to be considered as available for distribution as dividend. On the other hand any surplus arising from the sale of a current asset is a revenue profit and, as such, must be brought to the credit of the profit and loss account.
- (3) No account need generally be taken of changes in the purchasing power of money during an inflationary period. (This means that, in many instances, fixed assets are shown in the balance sheet at figures which represent neither the present worth of those assets to the business nor their realizable values. Such figures may be of some interest to the historian but are of no use to the investor for, among other things, they make it wellnigh impossible to arrive at an estimate of the real capital employed for the purpose of assessing the adequacy, or otherwise, of present earnings on that capital.)

It is obvious without any further investigation that a profit figure pruned by the application of these three principles is unlikely to bear much resemblance to the figure described in our de-

finition. Does this matter? Might it not be true to say that if errors of principle are effectively being made, then they are being made knowingly and on the side of prudence? This may possibly be so in the case of (1) and (2) above, but with (3) the error is far more likely to be on the side of extravagance, with the possibility of serious consequences. Apart from which it is surely reasonable to insist that, if final accounts are to have any appreciable contact with reality, then all increases in wealth accruing to the business should be reflected in those accounts, irrespective of whether that wealth has or has not been released. Further, it is even more important that things should be called by their right names; that what is revenue should not be described as 'capital' and what is capital should not be described as 'profit'.

Perhaps some of the absurd and even dangerous implications of the principles referred to may be appreciated by consideration of some general examples. As the principles tend to overlap in application, one or two examples should suffice to illustrate the incidence of all three. Consider first, for the sake of simplicity, a business which opens with a capital of £1,000, all of which is invested in stock. At the end of the accounting period, assuming that no sales have yet taken place, the balance sheet of the business, prepared in accord with best practice, will read:

BALANCE SHEET

Capital	..	£1,000	Stock, at cost	..	£1,000
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Double Thinking

Now suppose that at balance sheet date the replacement value of the stock, for which there is a ready market, has risen to £1,500. This indicates an increase in wealth (on paper) of 50 per cent of the opening net assets, an increase not reflected in the annual accounts but effectively retained as a secret reserve (theoretically anathema to both the law and the profession). Suppose the proprietor of the business wished to disclose this surplus by showing stock at £1,500 in the balance sheet. The accountant would visibly quiver at the very thought of thus taking credit for an unrealized profit and would firmly reject the proprietor's suggestion. In face of such obstruction the proprietor, in exasperation, sells the stock for £1,500 and immediately replaces it at the same price (no cash need ever change hands). The accountant, contentedly fingering invoices, is now pleased to prepare a profit and loss account showing a profit for the year of £500 and a balance sheet which reads:

BALANCE SHEET

	£		£
Capital ..	1,000	Stock, at cost	1,500
Profit and loss	500		

The sale of stock has obviously made no real difference to the year-end position, for assets, and therefore profits, are exactly the same in each case – yet the balance sheets disclose entirely different positions. Principles which allow such financial ‘double thinking’ are to be applied with some hesitation if they are not to be seriously reconsidered.

We must conclude then that realization is not, of itself, relevant to the ascertainment of profit. This becomes more obvious when one considers that even realized profit is rarely retained in cash but is more likely to be converted into assets which are themselves ‘dependent on realization’. (This is not, of course, to say that provision should not be made separately for particular losses expected to be incurred in process of realization.)

Which is Correct?

Now, to return to the example given above, it is certain that the apparent wealth of the business has increased by £500 and that this fact should be reflected in both balance sheets. To reveal this £500 in the first balance sheet, it would be necessary to conduct a revaluation of assets. The surplus on revaluation would normally be considered as not available for distribution as dividend and enlightened opinion would probably suggest that it be shown as a capital reserve. We now have a balance sheet as follows:

BALANCE SHEET

	£		£
Capital ..	1,000	Stock, at valuation	1,500
Capital reserve	500		

Again we have applied accepted principles and again we have an apparent contradiction. Two balance sheets, each recording the same state of affairs, yet one treating the surplus as a capital reserve and the other treating it as a revenue reserve, with all that that distinction implies. Which is correct?

The answer is probably that neither is correct because each has been prepared by rule-of-thumb methods without any serious consideration of the exact nature of the surplus of £500. It must be emphasized that we cannot speak of profits or even reserves (which carry overtones of profit) unless we are satisfied that there has been a real increase in wealth. The question of whether that increase has been converted into cash does not, of course, arise.

In the particular case the replacement value of stock has risen by £500. The correct question to ask is: ‘How did this increase come about?’ There are three possible ways. In the first place there could have been a steep fall in the purchasing power of money generally. In the second place there could have been a sharp increase in the exchange value of the particular commodity, the value of money remaining stable. Thirdly, there could have been a combination of both causes.

Suppose the surplus was brought about solely by a fall in the purchasing power of money. If so, then it represents no real increase in wealth. The £1,500 of assets are worth no more, in real terms, than the £1,000 initially recorded. The increase is merely a measure of the depreciation of nominal capital. In such case any description of that increase as a profit is clearly absurd. It is similarly illogical to class it as a reserve, capital or revenue, for the word reserve implies a sum set apart out of profits and, as no profits have been earned, then none can be allocated. In truth the £500 is part of the original capital subscribed and this fact should be indicated in some way in the balance sheet. The manner in which the indication is to be given is a subject for discussion but the introduction of no par value shares and the replacement of ‘nominal capital’ by a variable ‘capital fund’ may provide a suitable opening in the accounts of limited companies. For the present it is sufficient to emphasize that the surplus of £500 in our illustration, even though realized by sale of the stock, is not a profit and if it is treated as such and subsequently paid away in the form of dividend then the business is effectively paying away part of its subscribed capital.

Particular Price Increases

So far it has been assumed that the surplus in question arose from an unstable currency. Suppose now that it arose from an increase in the exchange value of the stock, the value of money generally remaining stable. How does this alter the position? It is true that the volume of stock has not changed, but its exchange value has increased by 50 per cent. This obviously represents an increase in real wealth for, should the stock be sold and the business be wound up the proprietors would receive, in real terms, 50 per cent more than they put in. It is clear, therefore, that the £500 in this case represents genuine profit. What is more, being over and above capital invested, it should strictly be considered as available for distribution and brought into account as a revenue profit. This will apply whether or

not it has been realized. Inasmuch as it may be necessary to retain such profit in the business as additional capital to finance the replacement of the stock it may be thought desirable to allocate it to a capital reserve – but this is a matter of policy not of principle.

This inquiry has been confined until now to the particular case of stock-in-trade. How far do the various criticisms made extend to the accounting treatment of assets of a more permanent nature. It is probably true to say that they become even more relevant if only because the amounts involved tend to be very much greater.

Fixed assets may be grouped according to whether they are of a wasting or a non-wasting nature. Each type is better dealt with separately. First, the relatively non-wasting assets of which the most common example is freehold land. Suppose a business, for the purpose of furthering its main objects, purchases a plot of freehold land at a price of £5,000. Suppose, further, as is quite possible, that ten years later the land is saleable at a price of £20,000, revealing a latent surplus of £15,000. The 'prudent' accountant, obeying rule-of-thumb procedures, would deal with this surplus in one of two ways:

- (a) he would ignore it until the asset was realized when he would treat it as a capital profit; or
- (b) he would revalue the land immediately and credit the surplus to a capital reserve.

It is patent that both methods beg the question of whether the surplus does, or does not, represent a real profit. What is far more serious, however, is that even where a real profit exists the accountant apparently feels himself to be under no obligation to reveal it in the accounts until it is realized. Published accounts prepared on such principles will obviously lose much of their value. What procedure should, in fact, be followed in the particular case under discussion?

True Nature of Surplus

As before, it is first necessary to inquire into the true nature of the surplus; in particular, does it represent a real or only an apparent increase in wealth? It could come about in one of three ways:

- (a) The purchasing power of money, generally, may have fallen.
- (b) The purchasing power of money remains stable but the exchange value of the land in that particular use has increased.

- (c) Neither (a) nor (b) apply but the exchange value of the land in some other use has increased.

If (a) applies then the position is similar to that outlined in the previous example. The real wealth of the business has not increased in any way. The land is now worth £20,000 but the purchasing power of that £20,000 is the same as that of the £5,000 originally expended. The land should be revalued in the balance sheet, for reasons already given, but the resultant surplus of £15,000 is not a profit, nor should it be allocated to reserve, for it is effectively part of the subscribed capital of the business and should be described as such in the accounts. It must be emphasized again that the position is not in any way altered by the sale of the land for £20,000 cash. Realization of the land does not affect the status of the surplus as part of the proprietor's capital (nor does it convert it into a capital profit) and consequently any subsequent distribution of this surplus, whatever it may euphemistically be called, would be effectively a return of that capital.

The position in (b) is somewhat different, for here although the exchange value of the land in its present use has risen, the value of money, generally, has not changed. The original cost of the land was £5,000. To obtain similar property for the same use would now cost £20,000, that is, the replacement value of the land is now £20,000. That sum represents the present worth of the asset to the business and it is at that figure that the asset should be shown in the balance sheet. If this is not done then the effective capital employed is being deliberately misrepresented and it is impossible for the proprietor (or investor) to judge whether the net revenue profits currently being earned represent a reasonable return on that capital. The failure, or reluctance, of the company accountant to supply such necessary information has been part, if not the principal, cause of the post-war spate of take-over bids.

Profit Re-Invested

Suppose the asset is revalued at £20,000. This will reveal a surplus of £15,000. What does this surplus represent and how should it be shown? The facts surely speak for themselves. Five thousand pounds was invested in the company and used to purchase a certain asset. The exchange value of this asset has now risen to £20,000, in terms of the same currency. Alternatively, one can say that the general purchasing power of the capital originally supplied has now increased fourfold. The proprietor has obviously made a

profit, capital or revenue, call it what you will, of £15,000. (In practice, of course, the assets cannot be taken each in isolation and a profit on one may be offset by a fall in the replacement value of another. This may introduce certain complications but in no way invalidates the argument.)

It has been established that, other things being equal, a profit of £15,000 has been made. It does not follow, however, that this sum is available for immediate distribution. The reason is obvious and has very little to do with the surplus being unrealized. The point is that if the land is to be retained then the profit made must be reinvested. It now costs £20,000 to hold the land as opposed to the original cost of £5,000. The proprietor has, in fact, increased his investment by £15,000 – and will, of course, expect a correspondingly increased return. If it is expected that the land will be retained indefinitely and that the value in use is unlikely to fall again, then it may be advisable, in the case of a company, to irrevocably capitalize the surplus by the issue of bonus shares. This step should not, however, be lightly taken, for if the land subsequently lost value or if the business had no further use for it, or if it was sold with a view to being ‘rented back’, then the business may suddenly find itself considerably over-capitalized, with many unpleasant consequences. Indeed, if any of these events are even remotely anticipated, then the most sensible procedure would be to retain the surplus in the form of a capital reserve, which would not be available for distribution unless and until the land was realized without view to replacement. Any loss on realization would, of course, be a first charge against the reserve. (It should be noted that as the law stands the £15,000 would be a capital profit which, in the case of limited companies, could only be distributed on the conditions laid down by the Courts.)

Alternative Uses of Land

So far we have dealt with two out of the three possible reasons for an increase in the value of the land. The third, and equally likely reason, concerned an increase in the exchange value of the land in some other use, the value of money remaining unchanged.

Suppose, as in the previous example, the land was originally purchased for £5,000. Suppose, further, that in its present use, e.g. as a factory site, the value of the land ten years later has not changed. The useful value of the land to the business, therefore, remains at £5,000. Now let a third supposition be that the land has an alter-

native use, say for housing development, and for this purpose has a realizable value of £20,000. How should this position be reflected in the books of the business?

It is important to distinguish this case from the previous one. There, in order to further the main purpose of the business, the effective capital invested was necessarily increased by £15,000. In the present instance this is not so. The business needs only land valued at £5,000 but has accidentally acquired land with a realizable market value of £20,000. In order that the proprietors of the business should be appraised of the true position it would be necessary for the balance sheet to reflect two facts. Firstly, that the effective capital invested has accidentally been increased by £15,000, and secondly (assuming that the land could be replaced at £5,000) that this £15,000 is surplus to the immediate needs of the business. It should be emphasized that, other things being equal, £20,000 is not the replacement value of the land in its present use and consequently revaluation of the land at this figure in the books would tend to distort the true position – though it may be added that the probable failure of the business to earn a satisfactory return on the additional capital disclosed would tend to lead to a revelation of the true state of affairs. Nevertheless, such a procedure can hardly reflect much credit on the accountant and a more satisfactory means of providing the relevant information must be sought.

Logical Procedure

Without attempting to seek a final solution to this problem it is suggested that a logical way to deal with the situation would be to retain the asset in the balance sheet at its replacement value (£5,000 in our example) and to add a note to the effect that the asset has a realizable value in an alternative use of £20,000. In this way the annual revenue profits of the business could be related to the capital necessarily employed while at the same time the existence of a potential capital profit would be revealed. If and when this profit is realized by sale of the land it would, other things being equal, be surplus to the capital required in the business and would be available for distribution. Pending such distribution it is interesting to ponder on how the surplus on sale should be shown. Inasmuch as it is available for distribution it can hardly be treated as a capital reserve, yet few accountants would be happy to display such a large ‘capital profit’ under the heading of ‘revenue reserves’.

(To be concluded.)

The Employment of Capital – II

by J. C. WALKER, F.C.A.

Chief Accountant, Unilever Limited

Capital Expenditure

THE distinctive feature of capital expenditure is that it generally commits a business to certain broad policies for long periods of time. If you build a factory in a certain place to make certain products, a long chain of consequences will follow for many years into the future. It is because of the direction-setting qualities of capital expenditure that we need to control it closely. Other forms of expenditure may be very important yet lack this distinctive characteristic. If one considers a promotional campaign which fails and compares this with a manufacturing unit which, due to a change of product fashion is useless, what is the difference? Mainly it is the chain of consequences and the period of correction. Because the manufacturing unit is there it has to be maintained; efforts will be made to use it, in due course to sell it. Unless ruthless action is taken the cost of uneconomic operations may be considerable. In the end, of course, the consumer will make certain that errors are recognized.

42. In any large business it has to be decided how far the authority to incur capital expenditure should be vested in local management. There is no simple answer to this – it depends on the general organization of the business, and on whether the business is capital-intensive. I believe the main boards of some companies do not directly authorize any capital projects costing under £100,000. There are major companies whose limit is much lower, but this does not necessarily imply tighter control from the centre. It merely acknowledges the fact that in a business which, relatively speaking, is not capital-intensive, a project may deserve to be regarded as major at a lower level of expenditure.

43. Before going further, it might be as well for me to note some of the many important matters that must be examined prior to detailed consideration of a major proposal to incur capital expenditure. First, one must look at and assess the economic and social background of the country in which the expenditure is to take place. Has the country a history of stability and progress? Is the present Government likely to follow policies favourable to the venture? What is the population trend? Is the standard of living rising? What competitors are already established? What resources are available locally to carry out the proposal? What raw materials, labour and transport facilities are available? Can the products be made to a

satisfactory standard? If the proposed investment is abroad, what view do the local people take of foreigners and foreign investment? Will they allow transfer of profits and repatriation of surplus capital? If one considers these questions and others like them, one is led inexorably to the view that the acceptance of many capital expenditure proposals must largely be a matter of faith, and confidence in one's judgment of the future, rather than of rational calculation of figures. Figures, in any case, cannot be any more accurate than the assessment of the business prospects and if their calculation and presentation gives an impression of precision – as some of the more complicated yield calculations can do – it may tend to result in concentration on the wrong factors and perhaps bring the proposer into disrepute.

44. It is said that some capital expenditure proposals, e.g. replacements or welfare buildings, cannot be justified by saving or additional profit. In practice, this may appear to be true. In fact, the saving or avoidance of loss of profit, in the case of a replacement, is usually so obvious that it need hardly be stated. For example, if a vital piece of production line is removed the whole thing stops. In the case of welfare buildings, the position is not quite so clear, but if you think of why such buildings are usually erected the position becomes clearer, even though the estimate of saving may not be any easier. For instance, a canteen may avoid staff wasting time going home for lunch, improve morale or simply result in added energy, and from any of these the business may get improved productivity, perhaps reduce wastage or avoid an expensive staff turnover. Each one of these can be evaluated in terms of improved profit position. A crystal ball may be necessary!

45. There are many projects which are undertaken for a direct gain that can be estimated more readily. How should this gain be calculated and how do we tell if a project is worth doing?

46. If you consider the estimates that have gone to make up the justification for the usual proposal to expend capital you may, like myself, doubt the usefulness of precise calculations in all cases and share my view of the importance of balanced judgment. This reminds me of the saying of one of my colleagues – 'The estimate of one department, when nicely typed out and passed on, becomes the fact of the next'. Nevertheless, the use of skilfully assembled figures can do much to clarify the merits of an investment proposal and enable the prospects of gain to be set against the risk involved. In general, I recommend

as a starting-point the use of a convention similar to that applied to existing assets in assessments of gross capital employed. Thus, in looking at a proposal to be justified by savings you take the gross cost of fixed assets, plus additional working capital and relate to this capital sum the saving or profit expected to accrue (after deducting depreciation based on an assessment of the life of the fixed assets and statistical taxation).

47. The inclusion of additional working capital may be criticized on the grounds that it is not at risk (at least not to the same extent as the fixed assets) but I think its inclusion is essential. If a project ties up money that could be earning income elsewhere we must expect to earn an adequate return on the whole of this money, including the part used for working capital. Many will argue that as the working capital is not at risk to the same extent as fixed capital, the yield expected should be lower, but how much lower is not clear.

48. A more justifiable criticism would be that the inclusion of the gross cost of fixed assets is unduly conservative. The gross cost is often at risk only for the first year, by which time some part of the capital outlay has already been recovered. Furthermore, though this method of calculation has the advantage that it appears to tie in with yield calculations on existing assets, this is not so: existing fixed assets are included on a net replacement basis, so the inclusion of new fixed assets at gross cost in savings calculations may unjustifiably make the yield on a project look less than the yield on the business of which it forms part.

49. On the other hand, this method of evaluation has the merit that, in a business where great effort is made to impress upon operating managements the importance of yields, anyone can see the immediate effect of a capital project upon the overall yield.

50. Although the method of evaluating capital projects that I have described is widely used, one should not exclude any method which helps management to reach correct decisions. It is up to the accountant, after stating the facts in conjunction with his colleagues and perhaps using the simple concept I advocate, to consider all the financial implications, such as the source and cost of finance, taxation benefits, proposed tariff changes, etc., and to add whatever further information and calculations he feels will enable the proposal to be fairly assessed. For many proposals, particularly where large expenditure is involved, more refined methods of presentation may be justified. Often one of the difficulties is to state fairly the yield which the estimated profits or savings give on the initial outlay. Where these are constant from year to year there is no difficulty; but where this is not so, which figure is one to take – the profit in the first year, or in some theoretical ‘normal’ year, or an average of the profits over the expected life of the project? None of these is satisfactory, for we are up against the difficulty that it is not only *how much* profit is earned but *when* it is earned that should

affect our view of a project's merits. Suppose there are two projects with a five-year life and equal risk and they yield profits as follows:

		Project A	Project B
		£	£
Year 1	.. ..	100	20
2	.. ..	80	40
3	.. ..	60	60
4	.. ..	40	80
5	.. ..	20	100

Project A is clearly to be preferred because, although both yield total profits of 300, Project A earns them more quickly than Project B.

51. Clearly, £100 now is worth more than £100 next year. But the influence of timing cannot always be so readily assessed. Suppose you are considering building a plant to make a new product in a certain overseas country. You estimate the life of the plant as fifteen years. Sales are expected to increase by 2 per cent compound for the first ten years and profits by somewhat more than this. You have been given pioneer tax relief for the first five years. You believe that after three years there is a strong probability that the Government will impose a protective tariff on similar products imported from abroad. You are at present supplying the market (on a smaller scale) with imports of a similar product from the United Kingdom; if you manufacture locally, these imports will largely cease, leaving some spare capacity in this country. In evaluating a project of this sort, by using over-simplified methods you may be rewarded with the wrong – or at least an inadequate – answer.

52. For problems of this kind the discounted cash flow method can be useful because it enables the timing of the profits to be taken into account.

53. There are several variants of this method. You can take the expected cash flows, i.e. depreciation plus net profit, from a project over its expected life, discount them at the marginal cost of capital or at the minimum rate acceptable for the project and compare the resulting present value with the gross capital cost, including working capital. One difficulty of doing it this way is that the risk varies from one project to another and therefore the minimum acceptable rates varies also. In practice, it is very difficult to get anyone to set the minimum acceptable rate before examining a proposal – people prefer to be told the rate of yield and to decide ‘This is acceptable – that is not’. Another difficulty about this approach in conditions where capital or management resources are very scarce, is how to interpret to top management the competing merits of a group of capital proposals every one of which gives a favourable answer, though not all equally favourable.

54. A more useful variant is to take the expected cash flows and discover at what rate these must be discounted to give a present value equal to the gross capital cost (again including working capital). This usefully avoids the necessity of setting a discount

rate in advance, and makes the answer easier to present intelligibly to top management.

55. Unfortunately this technique can appear to become complicated in practice and it is probably for this reason that it has not been adopted more widely. In a large decentralized business where one looks first to local operating managements to satisfy themselves that a project is economically sound, the task of bringing about a wide understanding of discounted cash flow (or any other of the more refined methods that may exist), sufficient for it to be adopted as a working concept in everyday use, is formidable. Even the idea of 'present value' is one which many people do not readily understand. Furthermore, so long as the yield on gross capital employed, as I have defined it, is used as one of the yardsticks for judging performance in relation to *existing* assets, complications may attend adoption of the discounted cash flow method for evaluating *new* expenditure. For a major project it is quite possible to obtain a very favourable yield when this is calculated (by discounted cash flow) at the planning stage, only to find that when the project is complete the yield on gross capital employed for the business as a whole has gone down. This is an acceptable result as long as the dissimilarity of the two conventions is clearly understood, not only by those who make the calculations but also by those who will be confronted with them and invited to use them as a background for making decisions and forming judgments. The absence of this clear understanding will certainly lead to acute irritability among senior people.

56. Despite these difficulties there is, I believe, quite a lot of interest in the problem of how and when to apply the discounted cash flow method. Probably the answer lies in the development of a convention which excludes some of the finer points of this method while retaining the essential ones. Certainly I am reluctant to conclude that one disadvantage of large-scale business is the necessity to simplify concepts so much, in the interests of general understanding and acceptance, that in complex situations wrong decisions may be taken.

Hiring Fixed Assets

57. If the ratio of profit to capital employed is used as a measure of effective business performance, one might hope to improve this performance not only by making more profit but also by employing less capital. Renting fixed assets is a fairly obvious way of doing this. In a highly decentralized business, a unit manager could jack-up his own yield on capital employed by hiring resources, e.g. buildings and plant. But from the point of view of the business as a whole this could be disadvantageous, and the hiring of assets should therefore be just as closely controlled as capital expenditure. The owner of the plant must earn, in addition to this own costs, such as repairs and administration:

- (a) a sum to cover depreciation and obsolescence;
- (b) interest on his own capital at a basic rate - whatever that may be;
- (c) a profit over and above these two elements.

The long-term renting of equipment is essentially the same as obtaining a loan to purchase the equipment, the only difference being the legal ownership. Usually, any major business can raise money as economically as anyone else. If the asset is one about which it is well-informed it should be at no disadvantage for essential maintenance, depreciation, etc. Therefore, why should it hand over profits to another?

58. More generally there can be no simple answer to the question whether it is economic to hire fixed assets. It depends on the size of the company, the resources it can command, the nature of its business and the minimum period of hiring. There are some types of equipment that come only in large indivisible units. A small company may do well to hire such equipment where an outright purchase would not be economically justified. A company with limited resources may in certain circumstances find it worth while to hire equipment full-time if no way of raising money can be found and if existing resources can be put to more profitable use. Finally, much depends on the nature of the business and the minimum hiring period. When the utilization of assets is unequal at different times, short-term hiring is a sensible way of providing for peak demands (e.g. renting storage space). In considering longer-term hiring the risk of obsolescence is important. One may think it worth hiring equipment if one foresees obsolescence approaching fairly rapidly but the owner does not (the difference of view is essential, otherwise, the risk is covered by a premium in the owner's rate). Alternatively, one may expect that certain equipment will become obsolescent in one's own business though not in industry generally. Here genuine economic advantage both to the owner and to oneself may flow from a hiring arrangement.

59. These are some of the considerations that should be borne in mind in deciding whether to hire equipment. The balance of advantage in any particular situation can only be determined by examining the facts. There is a final point worth mentioning. Hiring assets under a long-term contract may commit a business to a particular future policy or line of action as fully as buying the assets outright. Here is another cogent reason why such hire contracts should be subject to the same rigorous examination as proposals to incur capital expenditure.

Revaluation of Fixed Assets

60. To treat this subject exhaustively would require a paper in itself. I shall make only a few observations.

61. The main reasons for revaluing fixed assets are usually:

- (a) to make the information given to the shareholders more meaningful;

- (b) to ensure that when examining selling prices and margins of profit a business takes account of the replacement cost of its fixed assets, particularly under conditions of inflation and fairly rapid technological change.

62. These do not necessarily go together. The former implies an adjustment to fixed asset values in the published balance sheet, and it is hardly conceivable that if this were done, out-of-date values would still be used for commercial purposes. On the other hand, current values can quite easily be adopted for commercial purposes without adopting them in the published accounts.

63. The common-sense justification of adopting revaluation in published accounts is to enable shareholders, at times of inflation, to relate profits to asset values stated in common money terms. Though this is important it must be kept in perspective. Inflation is only one of the influences that affect asset values – albeit an important influence in recent years. Technological development may be of equal importance. This may occur, first, in such basic industries as iron and steel, and may mitigate the effect of inflation, causing the prices of certain types of machinery to move less than one would expect from the general fall in the value of money. Next, it may affect manufacturing industry – improvements may occur in plant design, or new processes may be invented for which different plant is required, so that existing plant will not be replaced. Finally, in some industries existing processes may possibly still be quite adequate, but materials may be developed which are easier to use or the product manufactured may go out of fashion or be replaced by another (perhaps more efficient) for which a different plant is required.

64. Here, then, are a number of factors which may affect the value of fixed assets. If we wish to give shareholders an up-to-date picture of the value of fixed assets, how can we justifiably adjust book values simply to take account of inflation while ignoring these other influences? There is no unique solution to this difficulty. It is a matter of judgment. If inflation is rampant common sense demands an adjustment of published fixed asset values. But I hope I may have succeeded in suggesting to you that inflation is not a special problem by itself, but one of a group of problems that ought to be considered together. I am certainly not advocating that fixed assets should never be revalued, but I do think that, bearing in mind how abstruse is the concept of value and how complex the influences that bear upon it, one should not lightly discard the concept of cost in reporting to shareholders. In any case, a revaluation can only be right at a point of time, right on the basis of the conventions used, right in the opinion of the people who carry it out. As soon as it is recorded in the books and balance sheet it may be out of date.

65. As I remarked earlier there is no need to adopt a revaluation in the books, merely to ensure that inflation is taken into account in considering selling

prices. Fixed assets can be included at net replacement value in internal calculations of capital employed and depreciation charged on these enhanced values in internal reporting of trading profit. You may perhaps consider that the difficulties I have referred to in connection with revaluation in published accounts are just as relevant to internal reporting. This is true. But in internal reporting one makes an informed guess, erring on the safe side and fully aware that the conventions one is using have their limitations. It is scarcely possible to bring about such a degree of awareness among all the people who may place reliance upon published figures.

66. I believe that after a major bout of inflation or major technological advance, the current replacement value of fixed assets ought to be assessed in detail – that is, taking into account how one would replace those assets today, in the light of all the factors involved, including, of course, the position of the end-product. The result of this review should be used at least for internal purposes. I can envisage a situation where shareholders ought to be told the result – for example, where large blocks of their real capital have been lost, due to the advance of technology or to change in materials or end-product. I cannot recall ever having seen an annual report which dealt with such an event. Has inflation enabled us all comfortably to turn a blind eye?

67. After a revaluation of this sort, the gross replacement value would be used instead of original cost as the basis from which to calculate net replacement value for internal reporting. I advocate making broad assessments of the amount of inflation, from year to year, using such indices as might be readily available and applicable to the groups of assets concerned. Do not forget that plant used in many overseas countries originates in Europe or North America. Thus, the indices applicable to plant costs (but not installation costs) may have to be based on tables produced in the country of origin.

68. If in assessing the real profit of a business, depreciation is calculated on the basis of the current value indicated in the preceding paragraph, and the capital expenditure of the year is greater than the depreciation so calculated, then a business can usually be satisfied it has taken reasonable steps to protect the real value of its assets, assuming, of course, a profit remains (and distributions do not exceed it) after deducting such current value depreciation. Whether shareholders are told the current assessment of depreciation, or whether they acquiesce in the retention of profits sufficient to make up the disclosed depreciation to its current value matters little; in fact I wonder how many people are aware that the real increase in intrinsic value of their equity is often less than the retention of profit. Usually, the real asset value and the earning power of the shareholders' interest are safeguarded and profits and dividends in terms of current money values have tended to rise; and that keeps everybody happy!

Obsolescence

69. Before concluding, I should like to express some thoughts on obsolescence. I have already referred to the difficulties which technical advance and product obsolescence create when one is assessing the current value of fixed assets. It would, I suppose, be true to say that while every business is (or should be) constantly striving to bring about improvements in processes and products, the pace at which this is achieved is something of which the business man is, in one sense, apprehensive, because it may jeopardize the earning power of existing assets. Is there any way in which we can minimize this risk, perhaps even turn obsolescence to good account?

70. First, I suggest, we should examine very closely the assumptions underlying technical specifications for plant and machinery. Engineers are excellent chaps and take a very proper professional pride in their work. They like to do a thorough job. They admire durability. To this may be added the anxiety of the marketing man about future production capacity. 'In five years' time sales will have risen by 50 per cent, so we had better build now with a margin.' There are many situations in which both these inclinations may be entirely justified. But they are not always justified. Where the pace of obsolescence is rapid it may be no advantage to find ourselves with plant that is too enduring, and if we are working well under capacity our plant will take even longer to wear out. Again, engineers usually take a pride in maintaining assets in the peak of condition, wherever possible. Do we stop to consider often enough the implication of this: the cost of such maintenance and the likely life required from assets? There are some engineers, I understand, who would advocate running plants to death, with little or no maintenance, other than oiling, greasing, etc. A correct decision on this needs careful assessment from time to time of all the factors involved, in the light of ultimate maximum long-term profit.

71. Finally, we may be able to turn obsolescence to good account by re-examining the whole of our production arrangements - even their location. Many businesses in this country are operating in factories that were first built more than fifty years ago and sited in accordance with the economic circumstances of the time. Consider the developments that have occurred since then: development of the internal combustion engine, new sources and new types of raw materials, the creation of new sources of power, the automatic control of machines, the invention of new products, the continued migration of people to big cities, the redistribution of income forming new mass markets. How many manufacturing businesses that were well sited in 1900 have lived through this astonishing sequence of events and are able to emerge in 1961 with the considered view that their factories are exactly where they would wish them to be if they were building anew today?

72. I have referred to the direction-setting

characteristics of capital expenditure. In many businesses, once you have put a factory in a certain place, you will rarely again have a chance to consider its location, because the assets which make it up wear out at different rates and come up for replacement piecemeal. Obsolescence may get you out of this difficulty. If rapid technical advance makes your processes out of date or compels you to develop new and different products, you may have to replace a large part of your assets over a fairly short period. This will give you a chance to reconsider your location of manufacture and perhaps to change it to a more advantageous site. When a business is going through such a period it will have many difficulties to contend with and it is important not to miss this opportunity when it occurs; it may be many years before you have another.

73. I am not suggesting a decision on such a matter is very easy. No company following enlightened policies can afford to overlook its social obligations as a good employer, and the personnel problems may be considerable. I wish merely to emphasize that in the effective employment of capital in fixed assets their location may be of great importance, and the occurrence of obsolescence can have its bright side if you seize the opportunity, otherwise rarely available, to re-study this important matter.

Summary

74. To summarize the matters I have discussed in this paper:

- (a) The yardsticks used to measure the efficiency of the employment of capital should generally be simple if they are to be understood and used by management generally. More refined methods may be justified by particular circumstances or needs.
- (b) Capital employed is one of the major resources of a business and should be measured and stated at regular intervals, both separately and alongside the results of using it.
- (c) Capital employed can be measured in a variety of ways, depending on the circumstances, but for commercial purposes it is generally advantageous to commence with the current value of all assets in use (excluding liquid funds and overdrafts) deducting only normal trade creditors.
- (d) Profits to be related to capital employed must be assessed on a comparable basis and should be after deduction of depreciation in terms of current value and after appropriate taxation. Generally the taxation deducted in assessing overall trading yields should be the maximum rate applicable to profits passing a country border.
- (e) There should be a regular review of the yields on capital employed so that funds are deployed

to the maximum advantage and so that either a proper return continues to be earned or management is quickly made aware of the situation.

- (f) Yields on capital are useful broad measures of the progress of profitability from year to year, and from unit to unit; they are not an absolute. The shortcoming of yields in possibly discouraging maximum profit should not be overlooked.
- (g) Yardsticks such as yields and other ratios to capital employed, turnover, etc., usually need to be tailored to the requirements of the business and of its management.
- (h) When considering major capital proposals for execution in overseas countries, the decision may well rest more on faith in the country and confidence in the judgment of the directors than on rational calculations. This point of view must, to some extent, apply to all capital expenditure proposals.

- (i) While there are other methods of assessing the prospective yield on proposed capital expenditure there are advantages in this being related in the first place to the methods of assessing yields on existing capital employed. However, this approach can give misleading answers and more refined methods may be justified.
- (j) Hiring of assets can be justified in certain circumstances but for large companies or groups it is generally cheaper to buy than to hire.
- (k) The effect of inflation on the value of fixed assets is not an isolated problem but one of a group of problems (e.g. technological change) that ought to be considered together.
- (l) Obsolescence may provide an opportunity, which should not be missed, to re-examine the siting of factories.

(Concluded.)

Business Computer Symposium

WIDE RANGE OF PAPERS PRESENTED

THE successful Business Computer Symposium held at Olympia, London, on Wednesday, Thursday and Friday of this week was attended by delegates from throughout the United Kingdom and from countries overseas, including France, Germany, Italy, the United States, Japan and Russia. Twenty-six papers were presented at the six sessions and executives from a number of concerns of diverse nature and size – both private and State enterprises – gave management the benefit of their practical user knowledge of applying computer techniques to their particular problems. The opening address was given by Sir Edward Boyle, Bt., M.P., Financial Secretary to the Treasury, and extracts from his speech are reproduced below, together with summaries of a selection of the papers presented at the sessions held on Wednesday and Thursday. A report of the proceedings at the concluding sessions will appear in next week's issue.

OPENING ADDRESS

In his opening address, Sir Edward Boyle said:

Government interest in computers is long established. In 1823 the Government made a first payment of £1,500 for the development of a computing device by Charles Babbage who has rightly been called the father of the modern computer. His 'analytical computing engine' embraced in its concept all the fundamental principles of the largest modern machines. Further payments were made to Babbage until by 1841 £17,000 had been contributed together with assistance in kind.

In 1823 the Chancellor of the Exchequer is reported to have said that:

'... the Government were in general unwilling to make

grants of money for any inventions however meritorious; because if they really possessed the merits claimed for them, the sale of the article produced would be the best as well as the largest reward of the inventor; but that the present case was an *exception* ... and was deemed a fit object of encouragement by the Government.'

Unfortunately by 1852 the Chancellor was writing:

'Mr Babbage's projects appear to be so indefinitely expensive, the ultimate success so problematical and the expenditure certainly so large and so utterly incapable of being calculated, so that the Government would not be justified in taking upon itself any further liability.'

Government Assistance

Well, we know better today. One of the earliest computers in this country was designed in a Government research establishment – the National Physical Laboratory. A relatively large amount of financial assistance has been given to the development of computers by industry through the agency of the National Research Development Corporation. Moreover, very important contributions have been made

by the universities and especially by Cambridge, London and Manchester. These activities have provided the basis for the computer industry in this country.

Computers are now, and have for some time, been recognized as vital aids in scientific work and capable of making important contributions to control in



Sir Edward Boyle

industry. Although one of the first applications of computers in commercial data handling occurred in this country, the application of computers in the commercial field has not spread so rapidly here as in some other parts of the world. The papers before this symposium, which are directed primarily at these applications and not at scientific applications, should encourage many others to follow the example of the pioneers who will be talking of their experiences.

Efficiency and Reliability

The success of computers in all fields depends on their efficiency which in turn depends upon economic use and reliability. Developments in the last few years have led to dramatic improvements. It is now possible to get information into and out of the computer very much faster than before and there have also been improvements in the internal efficiency and speeds.

One question which has been much discussed is whether a large computer installation is more economical than a number of smaller computers. When computers were in their infancy Professor Hartree is said to have suggested that one large computer could well serve the needs of the United Kingdom assuming data transmission links were established

between all the possible customers and the computer centre. Although this is manifestly no longer true, there was nevertheless much wisdom in the general philosophy that, if provided with efficient and comprehensive telecommunication links, a large computer can serve economically the needs of a large organization with many out-stations or of a large number of separate customers. The G.P.O. is taking steps to provide Telex service with facilities for error detection and correction, and is collaborating with industry in the development of suitable equipment for use on telephone links and this might in time be extended to even higher frequencies.

A word of warning may, however, be desirable here. It cannot automatically be assumed that the bigger the computer installation, necessarily the more efficient. Many other factors must be taken into account including the problems of the organization into which the computer system has to fit. Much of the success of a computer installation depends on a thorough study of the problems to be handled before any commitment is made. Many disappointments in the past have arisen from failure to appreciate this need for a careful initial case study. Time and money spent at this stage can save many thousands of pounds later. The economics of computer systems are well worth careful study. This is a subject which is to some extent dealt with in the first paper before the symposium on the basis of Government experience.

Exports and the Common Market

I should like now to make some reference to exports, and to the importance of the contribution which the fast developing British Electronic Computer industry can make.

Direct exports of electronic computers have steadily increased and in 1960 they amounted in value to well over £2 million. They fell back in the first quarter of 1961 but electronic computers vary considerably in size and cost – so that one quarter's figures may not be of any great significance – and there is no reason why the industry should not continue to expand its direct exports over the years ahead.

The export potential could be considerable. To develop exports fully, however, the industry must not only take every advantage of the expanding scope for development but it must also harness the results of its research and development efforts to a drive for business in the markets of the world.

The contribution which the electronic computer industry can make to increasing the competitive power of British industry and commerce is of obvious importance – whatever the outcome of the negotiations following Britain's application to join the Common Market. Membership of the Common Market would provide great opportunities for our industries in large, highly industrialized and rapidly expanding markets in Europe; it would also demand the development of the full competitive power of our industries in the market at home.

SUMMARIES OF PAPERS

**PROGRESS IN THE INTRODUCTION OF
AUTOMATIC DATA PROCESSING INTO
GOVERNMENT DEPARTMENTS**

by J. D. W. Janes, O. & M. Division, H.M. Treasury
As a sequel to the paper entitled 'A review of automatic data processing in Government departments, May 1958', presented by Mr J. H. H. Merriman, M.Sc., A.Inst.A., M.I.E.E., at the 1958 symposium (*The Accountant*, December 6th, 1958), Mr Janes' paper reviewed the progress made during the intervening three years in the introduction of computers to undertake clerical processes in Government departments.

In December 1958, Mr Janes said, seven computers had been installed in six Government departments and five were on order. By March 1961, fourteen installations with eighteen computers had been installed and a further nine computers were on order. Most of the systems already installed, and those on order, he stated, were concerned with the four primary tasks of pay, stock control, accounting and statistics – the tasks which had always seemed the most obvious applications for A.D.P. The possibilities of using A.D.P. in such fields as personnel records, establishment work and cataloguing were also being explored.

The 1958 paper, he said, explained that there were about one million staff employed in Government departments, of whom some 400,000 were classified as industrial staff. A.D.P. systems installed, on order or in advanced stages of planning, when all fully operational, would account for the payroll of 82 per cent of the non-industrial staff and 65 per cent of the industrial staff – about three-quarters of a million persons. An I.B.M. 705 computer, already installed

and in course of taking over pay accounts of all other ranks in the Army, will also be used by the General Register Office for processing the 1961 Census of Population and is an example of the sharing of computer capacity between departments.

With the exception of the 1961 Census of Population all the examples quoted by Mr Janes dealt with the mechanization of work which was already being done to some extent by other methods. There was, however, one example of work which had been planned from the start with a computer in mind – the handling in the Ministry of Pensions and National Insurance of the graduated pensions scheme. He continued:

'There is no existing system and there will, therefore, be no parallel-running manual system to fall back on. The computer will be required to maintain records of contributions and to calculate pension entitlements. This is a job of immense size. A name and address index on magnetic tape is currently being prepared for thirty-five million persons. In due course, three main files will require to be processed which together will total 1,000 reels of magnetic tape. Ultimately, records of contributions for forty years or more will have to be maintained.

Dealing with some of the problems involved when purchasing computers, Mr Janes said that one difficulty was the need to ensure that the claims made by manufacturers could be relied upon, not only of the capacity, performance and reliability of their equipment, but also of the delivery date. Our standards, he said, are necessarily rigorous and we wish to be assured that a specified degree of serviceability can be maintained for at least ten years – the period which we use for amortization.

Another difficulty, he said, was that, because of rapid



A team of programmers at the Newcastle headquarters of the Ministry of Pensions and National Insurance preparing programmes for the Emidec 2400 computer which is to be used in connection with the Graduated Pension Scheme.

technical developments, offers of equipment were constantly being made for which the manufacturer made great claims but which had hardly left the drawing board. 'Despite the best efforts of our advisers', stated Mr Janes, 'this brings considerable risks, not least of serious delays in delivery.'

INVENTORY CONTROL, ACCOUNTING AND PAYROLL

by A. Bradley, F.C.I.S., executive assistant (Office Procedures and Methods) to managing director, Ford Motor Co Ltd, Dagenham

Mr Bradley first dealt with the transfer of his company's employees payroll from a routine service basis on the Leo computer at Cadby Hall to a company-owned computer and said:

'We were conscious of the contribution that computers could make towards our day-to-day operations, and desired to gain some practical experience in the operation of a full-scale routine prior to a commitment for an installation of our own. The experience gained by having a payroll produced on a computer was such that the company decided to install its own computer. We now have two Leo machines. The first has been operational since March 1959, and the second since March 1961.

'Many valuable lessons have been learnt in this time, not the least of which is the conviction that the success of a computer installation depends entirely on competent detailed planning of the area of work to be covered. This is not always understood by the departments for whom a service is being provided. It means a tightening of routine clerical systems, and good forward-planning by the clerical operating departments. Another point not always realized is that a minor change under a manual or conventional punched-card system can become a major re-programming job of several man-weeks once the system is operated on a computer.'

An hourly payroll of 30,000 Ford employees had been produced successfully on a service basis since 1955; this, Mr Bradley said, gave valuable experience of the kind of operations involved. The results had always been received on time - no light undertaking when the first data was not available until the Monday morning of each week and results had to be available in sufficient time for the pay packets to be filled on the Wednesday and distributed to the entire 30,000 employees the following day, at a number of separated factory locations. The change-over, he said, involved the re-writing of all the programmes, and this commenced early in 1960 and required the equivalent of three man-years' work.

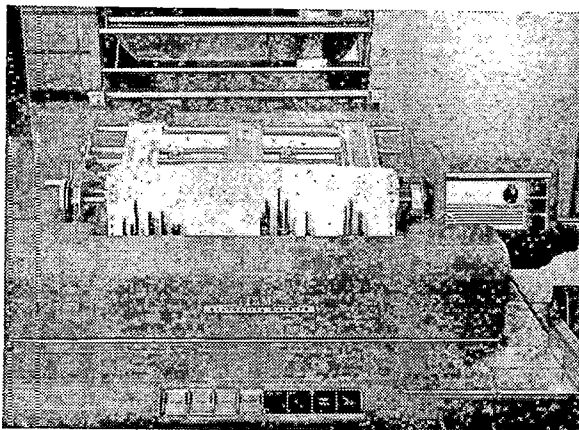
The Leo computer used at the Parts and Accessories depot was delivered in late 1958. After installation and acceptance trials, basic master records were transferred to punched cards. Parallel working to any major extent was not practicable - and, after one or two small runs using trial data, operations commenced in March 1959, and about 20,000 items were dealt with on the first run. During the period March-September 1959, a progressive take-over of all the various types of orders took place until all deliveries were under computer control. A physical stock check of all materials in the depot was made and the details taken on to the computer records. Since September 1959, a stock-control system has been operated by the computer. The computer now handles 30,000 line items daily. This figure includes all items on orders received, the recording of receipts and sundry adjustments.

USE OF A COMPUTER IN BANKING

by J. Letham, Bank of Scotland Ltd

In his paper, Mr Letham stated that the potentialities of new procedures served to underline the wasteful practices of the past whereby staff and machines had been provided to meet the maximum activity of bank accounts regardless of the wide fluctuations of day-to-day business. He said that the Bank of Scotland had been the first to install a computer in Britain operating with centralized arrangements.

Previous systems had been excessively expensive because the meticulous verification system which had



The I.B.M. 421 accounting machine showing type bars rising to print.

to be provided had duplicated work by having it carried out *in toto* by a separate member of the staff. This wastage had been overcome now that a built-in checking arrangement was practicable.

In explaining his bank's problems and aims, he said that they concentrated on ultimate goals so that, at a number of points where they might have merely automated existing practices, they cut through habits of verification, recording and filing to arrive at a system with as few manual applications and as many in-built checks as possible.

The bank's policy was one of educating staff first at one branch, then another, and so on until the rhythm of working to a centre was developed and accepted at a pace that could be guided and controlled. This, he continued, made it necessary to have a faster central machine, and an I.B.M. 421 was installed. By its higher speed and additional calculating capacity the scope of operation doubled, and the additions of branches to the scheme, with constant freeing of staff and machines, went forward smoothly and steadily. With the availability of the IBM 1401 system as the stage of development after the 421 machines, the range of operation greatly increased.

FINISHED STOCK CONTROL

by F. Stubbs, Associated Electrical Industries Ltd

Early next year a computer will be responsible for finished stock control, production monitoring, sales, invoicing and accounting for the lamp and lighting business of Associated Electrical Industries' lamp and

lighting company. In his paper Mr Stubbs stated that the company's business covered a wide range of products and the lamp side alone had no less than 5,000 different types for 30,000 customers, and stocks were carried at thirty stores and depots.

The initial programme using an A.E.I. 1010 computer will only be a start in connection with the lamp and lighting business. Mr Stubbs anticipates, however, the following advantages:

- (1) Invoices, statements, and statistical reports will be produced more quickly.
- (2) We shall have a perpetual inventory of all stock items and we shall have the monitoring report for production much earlier than at present.
- (3) Once the operation has settled down there should be a noticeable saving in clerical costs.
- (4) When stage one is launched and working satisfactorily we will immediately turn our thoughts to the application of production control.'

The programme is in the process of being tested and it is expected that the take-over of the actual processing will commence early in 1962. The processing will be introduced in one region at a time.

APPLICATION OF AN I.C.T. 1301 COMPUTER

by J. Antill, group O. and M. manager, The Owen Organization

The privately owned Owen Group, a family business of over fifty companies in the United Kingdom, India, South Africa, Australia and Canada, has a total complement of almost 17,000 employees.

The parent firm, Rubery, Owen & Co Ltd, of Darlston, South Staffordshire, with a payroll approaching 7,000, is engaged mainly in work for the motor and agricultural industries. Production is organized on a divisional basis; each division forms a logical group of departments engaged in work either of a similar character or for a specific industry.

The company had used punched cards since 1935, but in 1955 the first phase of a planned expansion and modernization programme was commenced. The initial stages were concerned with the modernization of the existing punched-card installation. In mid-1958 an I.C.T. 1202 computer was ordered for delivery at

the end of 1960, with the intention of gaining computer experience on a small, low cost machine, whilst recognizing that the company would ultimately need a machine of greater capacity. At the same time a group Organization and Methods Department was created, with computer development for the whole group as part of its activities. Its first year was spent in training and developing its staff.

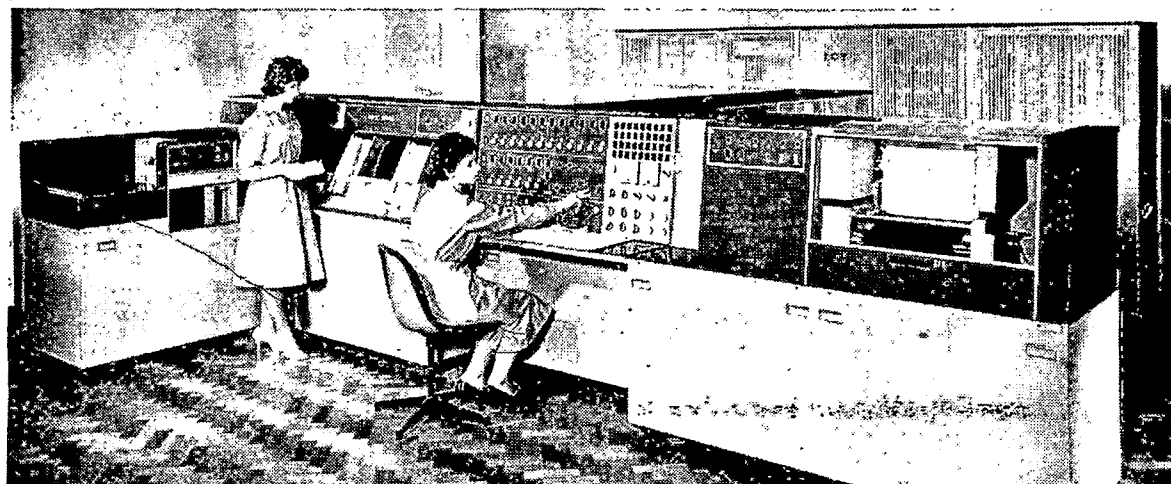
In mid-1959 the first real approach was made towards the use of the 1202 computer in production and material control in one department. In mid-1960, the announcement of the next generation of computers, a more powerful, less bulky, and considerably less costly race of machines, precipitated a further examination of machine requirements. This culminated in the ordering of an I.C.T. 1301 computer in June 1960.

While it was always difficult to predict actual savings, said Mr Antill, experience on the 1202 computer had given some pointer to the possibilities. Stock reductions arising from the 1202 application totalled 20 per cent, and an average saving for the whole company of at least 10 per cent using the 1301 computer, which is due for delivery next May, was anticipated. This would afford an absolute saving of approximately £50,000 per annum.

Undoubtedly, faster through-put and greater balance in production would result in further savings at least equal to this amount (e.g. a reduction in production costs of 0.1 per cent only would result in a £20,000 saving per annum), he declared. The broad objective was a saving of at least three to four times the cost of hiring the computer installation, which over a period of seven years would average approximately £23,000 per annum for equipment. Continuing, Mr Antill said:

'We are of the opinion that the major benefits will accrue from two sources. Firstly, the regular processing of data, which was not previously possible by manual means either due to volume or rapidity of change, will facilitate continuous reappraisal of production schedules, material schedules, and stock investment, on a fully integrated basis.

'The other main benefit will accrue in the routine operation of many tasks at present performed manually, with vast improvements in accuracy, speed, and timeliness.'



The I.C.T. 1301 electronic data processing system.

Weekly Notes

Institute Luncheon

THE President, Mr P. F. Granger, and members of the Council of The Institute of Chartered Accountants in England and Wales, gave a luncheon last Tuesday at the Hall of the Institute.

The guests were the Lord Mayor of London, Sir Bernard Waley-Cohen; Mr Sheriff C. S. P. Rawson, Mr Deputy H. W. Keith Calder (Chief Commoner), Sir Irving Gane (City Chamberlain), Mr E. H. Nichols (Town Clerk), Mr Deputy O. G. Sunderland (Chairman, Bridge House Estate Committee), Mr Rodway Stephens (Chairman, Coal and Corn and Finance Committee), Mr Desmond Heap (Comptroller and City Solicitor), Mr Leslie B. Prince (Chairman, Rates Finance Committee), Mr Paul C. Davie (The Remembrancer), Brigadier R. F. S. Gooch (Secretary to the Lord Mayor), Mr R. S. Walker (City Surveyor), Mr W. B. Holden (Chairman, Central Markets Committee), Mr E. G. Chandler (City Architect), Mr K. R. Cork (Chairman, Music Committee), Mr R. J. Hayward (Chairman, Officers and Clerks Committee), Brigadier P. Clapham (Common Cryer and Serjeant-at-Arms), Mr Deputy E. F. Wilkins (Chairman, Barbican Committee), Colonel G. E. P. Hutchins (City Marshal).

Cost Accountants' Luncheon

THE President of The Institute of Cost and Works Accountants, Mr F. M. W. Hird, F.C.A., F.C.W.A., gave a luncheon party last Thursday at the Queen's Hotel, Leeds.

Those present were: Mr G. R. Booth, A.C.W.A., Mr C. H. Crabtree (Chairman and Joint Managing Director, R. W. Crabtree & Sons Ltd), Mr E. Emmerson, F.C.A., F.C.W.A. (a Past President of the Institute), Mr Frank Fox (Chairman and Managing Director, F. Francis & Sons Ltd), Brigadier K. Hargreaves, C.B.E., T.D., D.L., F.C.I.S. (Managing Director, Hargreaves (Leeds) Ltd), Mr W. R. Hill, A.C.W.A. (President, Leeds and District Branch), Mr H. D. Lyttleton, M.B.E., F.C.W.A., Colonel Sir Malcolm Stoddart-Scott, O.B.E., T.D., M.D., M.P., Mr Kenneth Young (Editor, *The Yorkshire Post*), and Mr Derek du Pré (Secretary of the Institute).

Scottish Institute's Examinations

THE autumn diet of examinations under the new syllabus of The Institute of Chartered Accountants of Scotland was held in September and the names of the successful candidates in Part IV are

published elsewhere in this issue. Of the 350 candidates who sat this part of the examination, 142 (40.57 per cent) were successful.

Business Efficiency and Computer Exhibitions

OPENING the Business Efficiency Exhibition at Olympia this week, Mr Reginald Maudling, President of the Board of Trade, stressed the need for a changed attitude to business problems. There must be, he said, a tremendous wastage in manpower throughout the country in people doing manual jobs that could be done better and cheaper by the adoption of the equipment on show. On exports, Mr Maudling said that it was of the greatest importance to put the maximum effort into devising the sort of product that will sell in increasing quantities five or ten years ahead. We shall have to increase our own efficiency, he declared, and in particular increase the efficiency with which we use manpower.

Lord Brabazon of Tara who opened the Second Electronic Computer Exhibition, which is running concurrently with the Business Efficiency Exhibition, criticized the conservatism of British industry in the adoption of computers.

In electronics Britain has led the world, he said. We were first with television, first with radar, but in the field of computers we have fallen behind America and Europe, not in making computers but in selling them. Or, to put it more truly, in *applying* them.

On the continent of Europe, he continued, there are said to be about 1,000 computers installed and working. Here, in Britain, there are about 350.

'We can supply the tools better than anyone in the world; it is up to industry to make the best use of them. It would be a terrible thing if the rest of the world made use of our computers in order to get the better of us in business.'

Proceedings against the Institute

IN the Chancery Division of the High Court last Tuesday, Mr Justice Wilberforce by consent adjourned for one week an application by Mr Anthony Henry Lloyd, a chartered accountant, for an interim injunction to restrain, until further order, the Disciplinary Committee of The Institute of Chartered Accountants in England and Wales from dealing with proceedings involving Mr Lloyd.

The question to be decided by the Disciplinary Committee was whether Mr Lloyd was liable to be suspended or expelled from the Institute.

Land Valuation Teams

VALUATION of land by a team consisting of an accountant, a solicitor and a surveyor was advocated by Mr P. M. Trumper, a chartered surveyor, in his Bledisloe Memorial lecture last week to the Royal Agriculture College Association.

Speaking on the subject of 'a new basis for the valuation of land,' he said that their starting-point should be the ordinary 'valuation as an investment'. The team should then work out what tax advantages might be gained by the client and what they were worth, considering the future disposition of the property, at what point it might be sold to descendants and so working out a provisional budget of capital expenditure, revenue and taxation for, say, a ten-year period ahead.

He considered that the advantage of a team was that in this way a client's individual circumstances could be properly assessed in ascertaining the value of land. In addition he thought that such co-operation between the three professions would reduce professional jealousy. He agreed that this kind of teamwork is a new aspect of professional life for which there is, as yet, no training or teaching. He thought, however, that a good team 'inspired by the client if possible' could do more for him than any of the professional advisors acting singly.

There is a good deal to be said for this kind of professional co-operation but its success depends on the client even more than on the team. It would work most satisfactorily in the case of 'professional clients' who themselves know how to seek professional advice, co-ordinate it and take decisions on the advice given. There are, however, a great many people who provide much work for the three professions, and who certainly need their advice singly, who are unable to co-ordinate three sets of professional opinion without creating confusion rather than clarity.

Fall in Hire-purchase Debt

THE latest figures for hire-purchase debt show the first effects of the Chancellor's emergency measures taken in July. There was actually a small increase of £3 million to a record level of £971 million in August, but the volume of new business showed a sharp decline compared with the previous month.

Hire-purchase sales in shops selling household goods were down by 20 per cent and the volume of new credit offered by finance houses direct to hirers fell by 25 per cent. These two isolated serious declines, however, might well indicate only a beginning of the process of contraction. In August, credit sales in vehicles fell for the first time this year and to a level below that of a year before, but it is expected that this decline will have accelerated during September.

A seasonal drop in household sales of all kinds is normal in August, but the decline this year was more noticeable than usual. Also, since the Chancellor's 'Little Budget' took place in July, the figures for the latter part of that month were inflated by rushed hire-purchase buying before credit had time to tighten. Retail sales in August were noticeably buoyant for the time of year and the indications are

that the public in that month were adjusting their buying habits to a gradual tightening of hire-purchase credit rather than being put off altogether by the Chancellor's measures.

Industrial Accidents

THE industrial accident figures for 1960 announced recently proved to be the worst for ten years and show a 9 per cent rise on the previous year. The total number of accidents, at 190,266, represents not only a serious volume of largely avoidable human suffering but also a considerable dislocation and loss to industry. At the Press conference at which the Chief Inspector of Factories presented his annual report, the Minister of Labour announced that he is proposing to write to the employers' associations in sectors of industry where safety is a serious problem. Apart from saying that the engineering industry is one of them he did not disclose which industries are involved; another is likely to be construction which was responsible for 41 per cent of fatal industrial accidents last year.

The Chief Inspector of Factories said that as many as 60,000 head, feet, eye and hand injuries could have been prevented last year if there had been more widespread use of protective clothing. While some nine or ten industries have efficient accident prevention committees, many have no machinery for considering the problem of the industry as a whole. The Minister of Labour has arranged a conference of employers and workers in the shipbuilding and ship-repairing industry later this month and will then discuss with the British Employers' Confederation and the T.U.C. whether such joint conferences would be useful in other industries. The Government is not, however, as yet, starting to take any further direct action, for example, by increasing the number of factory inspectors - a course which has been urged for some time by the T.U.C. - nor has it promised to finance increased safety propaganda.

Selling to Europe

THE fact-finding survey carried out in seventeen countries by the Export Council for Europe with the object of assessing trading opportunities for British firms, was concluded with the publication of their third report. This covers Iceland, Turkey, Greece, Finland and Benelux and has three main findings, which are summed up in an introduction by the Chairman of the Council, Sir William McFadzean, C.A.

Europe, generally, is a highly sophisticated and discriminating market and the report points out that success will only be achieved by full attention being given to all the well known, but not so well observed, requirements of exporting, such as close and constant personal contacts, having the goods of the right design and price, and selling hard and delivering on time. Secondly, the report stresses that the British Government, British industry and all concerns must

project a far better image of Britain: it is much too widely accepted in Europe that Britain is living on her traditions. The picture of these traditions being allied to a modernized, highly efficient industry with a progressive outlook and policy has not yet achieved recognition.

Thirdly, the report emphasizes that the potentialities of the European Market will remain great whatever the outcome of the present talks with the Common Market and should be tackled energetically and without delay. In particular, the report draws attention to the fact that the prospects for capital

goods industries are by no means limited to countries now substituting industrial for traditionally agricultural economies; there is scope also in highly-developed countries which are now replacing, improving or enlarging their industrial output.

The report expresses the view that there are particularly good prospects for British exports to Belgium and Holland where there is a long-standing respect for the quality of British goods; it should also be possible to double British exports to Greece, though this will necessitate sending more senior representatives to that country.

This is My Life . . .

by An Industrious Accountant

CHAPTER 92

THE point about working with people is that the work soon becomes simple but the people are liable to become extremely difficult at any moment. That's why a personnel director, like our Prinny, is such an important feature of an organization; it's his job to solve the problems engendered by discordant human relationships.

One such discord has been causing us trouble recently, to wit, a feud between those one-time friends, the office manager and the sales manager, which is now impairing operational efficiency. Scotty, the S.M., has been pressing continuously for quicker and more detailed analyses of business from our punched-card section, which is in the domain of the O.M. The machines disgorge enormous masses of statistics, too great for easy digestion, so Scotty needs two girls at periodic peak-points to highlight variations from budgets and to circulate figures with explanatory comments. Prinny has refused to allow the engagement of additional staff, so two girls are sent from the typing pool, again in the O.M.'s domain, to do the job. Here's where the trouble starts.

Somehow these girls are always making mistakes. They compare quarterly figures with monthly, or mix them up with last year's, or highlight the wrong items, or omit sub-totals from the tot. Once they sent an urgent report to Scotty's holiday address instead of his home address, and it vanished for ever; twice they went on holiday leaving the job unfinished. The juniors have adopted their leaders' quarrel with enthusiastic but mistaken loyalty and the result has been chaotic; though in fairness to the girls, I note that Scotty always gets the greenest new-comers.

So Prinny called me into conference. I told him

I'd done my best: I'd talked to the office manager, who replied stiffly that he couldn't understand the complaint at all; he'd never - well, hardly ever - heard any rumour of a feud; he'd always given the best service possible, feminine responsibility being notoriously unpredictable. '*La donna è mobile*,' he said austerely. (He is, needless to say, old-fashioned in his approach.)

Scotty went to the other extreme. 'Sairtainly there's a feud,' he raged. 'I canna thole yon puir-spirited scrim-shanker; but the day he gi'es me juist one reliable report I'll quit needling him for ever. But if he keeps on being cantankerous, I'm liable to wring his neck soon.'

Prinny was aghast at the amateurish simplicity of my advances to the two enemies. 'You must eschew the pragmatic approach in cases of basically traumatic psychoses,' he murmured thoughtfully. 'Research into emotional motivations indicates that the obsessional depth-urge of the libido is rarely empirical. Test them psychologically initially.'

It's only fair to explain that Prinny recently attended a longish symposium for personnel directors entitled 'Whither the psychiatric neuroses' or 'The hidden hell of the subconscious', and we've not been able to keep up with his higher thinking since. I asked him what he meant exactly, was it anything to do with Freud's theories, but he put me in my place immediately.

'I'm afraid modern science has left the ambivalent inhibitions of Freud and Jung far behind,' he said indulgently. 'You should read about Professor Pavlov's dogs and the theory of conditioned reflexes. . . .' He went on in this strain for quite a while before being interrupted by an urgent telephone call from the chairman, who wanted him immediately. So Prinny just told me to settle things at once on the lines he'd suggested, and departed hurriedly.

Well, I tried to be psychological. I sent for the office manager and told him to assign the chief of the punched-card section to be personally responsible for Scotty's work until further notice; at the first shadow of complaint both of them would lose their year-end bonus. Now Prinny is rather pleased with the way he settled our problem and he advises the chairman to study psychoses in his spare time.

Finance and Commerce

Fitch Lovell

THE accounts for the fifty-two weeks to April 29th, 1961, of Fitch Lovell Ltd, one of the big names in food distribution – particularly groceries – are the subject of this week's reprint. In its present form, the company is basically the result of the merger of the Lovell & Christmas, the Fitch and the Keevil businesses, but the review by the chairman, Sir Ambrose Keevil, shows how widely the activities of the group have been spread. He refers, for instance, to the beginning of 'intensive production of poultry in the home counties', to the rapid advance in pre-packaging of foods, quick freezing, wholesale distribution through voluntary chains, to supermarkets and discount stores and to many other developments.

An idea of the size of the group is given by the passing of the turnover figure beyond £100 million for the first time. The figure is some £10 million higher and the profit before tax of £1,416,692 is up some 20 per cent. Sales and profits have continued to rise in the current year.

Sir Ambrose draws attention to the large amount of property owned by the group. Some of this property, he says, has not been valued for very many years and it has been considered wise to have professional advice on development potentialities and values.

Growth

The balance sheet has been stripped of details, but while it has thus been confined to one quarto sheet, the notes on the accounts with the auditors' report extend to three pages. Only the group balance sheet has been included in the reprint but the notes are given and form very much an integral part of the published accounts.

The report also includes financial statistics for the years 1954 to 1961. Growth is evident in a comparison of the trading profits of £264,400 for 1954 with £2,145,200 for 1961. Here is an instance where figures need a few words to fill out their meaning.

The gross profits on trading for 1961 were obtained from a much wider sphere of business than those of 1954 and it can hardly be said that the eight-year comparison is a comparison of like with like.

It is debatable, of course, whether a series of notes to the statistics, showing the mergers that have widened the sphere from which the profits are gained, would be of help. Perhaps it is rather like the case of

the expanding industrial holding company where expansion negatives the value of comparison.

Revaluation

INTO the context of Sir Ambrose Keevil's indication that some of the property values may be very much out of date may be put the results of a property revaluation by Saxone, Lilley and Skinner (Holdings) which ranks in the British footwear industry second only to the British Shoe Corporation that includes the Sears (True Form) interest.

The revaluation has put a figure of £15,664,550 on freehold and leasehold properties of which £8,460,800 is for freeholds and £7,203,750 for leaseholds. The revaluation surplus on freeholds is £5.6 million and on leaseholds over £5.8 million, giving a total surplus of over £11.4 million. In effect, the revaluation has shown current values to be nearly three times the property values in the books. The revaluation covered only the group's shop properties. The total net book value of factories, warehouses and other properties not included amounts to £1,640,000.

The directors are acting conservatively in writing into the books only the surplus of £5.6 million on freeholds and are using part of it to effect a one-for-one scrip issue which will write up the nominal value of the 5s shares to 10s each. A prior reforming of the capital will turn the 5½ per cent Cumulative Preference stock into £1 shares and the Ordinary stock into 5s shares.

The directors also propose to raise about £2 million by a debenture issue to repay bank borrowings and to augment working capital.

Ici on Parle

IT is interesting to notice in the report and accounts of Oldham & Son Ltd for the year to March 31st, 1961, that the statement by the chairman, Mr John Oldham, is given in French as well as English. The French version is headed: *Rapport du Président de la Société Oldham a l'occasion de la 42ème Assemblée Générale Annuelle*. The annual meeting of this electrical storage battery, lamp and engineering company is held in Manchester.

Mr Oldham, in a separate booklet on *The Oldham Group in the sixties*, says: 'I frequently use the expression in these days – the Oldham Commonwealth'. The centre opening of the booklet gives a map of the world showing the Oldham interests in Great Britain, France, Australia, Africa and India.

The company's connection with the French market dates back to the period shortly after the Second World War when a plant was established at Arras in the Pas de Calais to supply new mine lighting equipment for the devastated areas. Since then, a further manufacturing unit has been acquired at Douai.

Production now includes mine lighting batteries, gas detection and other safety apparatus, railway lighting lamps and power batteries for traction service and mechanical handling equipment.

Vive l'Entente.

FITCH LOVELL LIMITED

GROUP PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 29th APRIL, 1961

1960 (52 weeks)	1961 (52 weeks)	
£	£	
1,794,242	2,131,757	Group Trading Profits
19,624	13,433	Add: Investment Income
1,813,866	2,145,190	
62,622	65,160	Deduct: Emoluments of Directors of Fitch Lovell Limited (Note 2)
13,784	16,559	Auditors' Remuneration
126,186	140,188	Interest Payable
439,119	506,591	Depreciation of Fixed Assets
641,711	728,498	
1,172,155	1,416,692	Group Profits Before Taxation
537,112	626,934	Deduct: Taxation (Note 3)
635,043	789,758	Group Profits After Taxation
		Deduct: Amounts attributable to Outside Shareholders:—
27,123	47,928	Dividends paid and proposed
44,434	67,268	Profits retained
71,557	115,196	
563,486	674,562	Profits Attributable To Fitch Lovell Limited (Note 4)
		Deduct: Appropriations:
42,132	53,279	Dividends of Fitch Lovell Limited (Net) Preference Shares
96,215	132,874	Ordinary Shares:—
98,214	132,874	Interim of 7½%
21,350	22,527	Proposed Final of 7½%
259,911	341,554	Debenture Stock Redemption Fund
£303,575	£333,008	Balance of Profits Retained

GROUP BALANCE SHEET AT 29th APRIL, 1961 OF FITCH LOVELL LIMITED, & COMPANIES IN WHICH APPROXIMATELY 50 PER CENT. OR OVER OF THE EQUITY SHARE CAPITAL IS HELD BY FITCH LOVELL LIMITED

CAPITAL EMPLOYED		
I	Issued Share Capital of Fitch Lovell Limited (Note 5)	£
II	Capital Reserves SPECIAL RESERVES (Note 6) CAPITAL PROFITS RESERVES	4,264,775 3,156,403 895,025
III	Revenue Reserves and Surplus GENERAL RESERVES (Note 7) UNAPPORTIONED PROFITS (Note 4)	4,051,428 320,600 1,270,690
IV	Foreign Subsidiary Companies STATUTORY RESERVE RESERVE ARISING ON AND FROM EXCHANGE FLUCTUATIONS	419 81,730
V	Capital employed attributable to Fitch Lovell Limited	82,149
VI	Interest of Outside Shareholders	9,989,642
VII	Reserves for Future Taxation	1,342,544
VIII	Debentures and Mortgages (Note 8)	609,041 1,569,385
		£13,510,612
EMPLOYMENT OF CAPITAL		
IX	Freehold and Leasehold Land and Buildings	At cost or valuation
X	Plant, Motor Vehicles, Fixtures and Fittings	Accumulated Depreciation
		£
		5,499,095
		655,642
		4,843,453
		5,074,595
		2,338,299
		2,736,296
		10,573,690
		2,993,941
		7,579,749
XI	Premium at which Shares in Companies of the Group are held including Goodwill and Trade Marks	1,836,213
XII	Subsidiary Company not Consolidated	14,400
XIII	Trade Investments at or under cost	247,510
XIV	Total Fixed Assets	9,677,872
XV	Current Assets	
	STOCKS at or under cost	5,336,156
	DEBTORS	4,369,348
	QUOTED INVESTMENTS AND DEBENTURES (Market Value £8,089)	9,500
	CASH AT BANKS AND IN HAND	395,345
		10,110,349
XVI	Deduct: Current Liabilities and Provisions	
	CREDITORS AND ACCRUED CHARGES	3,792,672
	DEBENTURE INTEREST ACCRUED (Secured)	13,577
	BANK OVERDRAFTS	1,889,975
	CURRENT TAXATION	394,478
	PROPOSED DIVIDENDS—Fitch Lovell Limited	186,907
		6,277,609
		3,832,740
On behalf of the Board:—HUGH B. FITCH		

On behalf of the Board:—HUGH R. FITCH

FITCH LOVELL LIMITED

NOTES ON ACCOUNTS

1. In accordance with Section 22 of the 8th Schedule of the Companies Act, 1948, your Directors report:—

(a) They consider that it is impracticable that the Financial years of all the Grouped Companies should be ended on the 29th April, 1961.

(b) That the earliest and latest dates on which the Grouped Companies' financial years ended, other than those ending on the same date as Fitch Lovell Limited, were respectively 31st August, 1960, and 1st April, 1961.

2. The emoluments of the Directors of Fitch Lovell Limited include the sum of £1,350 (£1,350) being past Directors' pensions.

3. The amount set aside for Taxation is based on the profits before taxation as follows:—

		£
30.4.60	United Kingdom Taxation:—	
468,278	Income Tax	474,820
109,346	Profits Tax	160,301
2,563	Overseas Taxation (net)	5,751
580,187		640,872
43,075	Deduct: Adjustments for past years	13,938
<u>£537,112</u>		<u>£626,934</u>

4. The Profits attributable to Fitch Lovell Limited are dealt with in the Accounts of Fitch Lovell Limited and the Group as follows:—

		£	£
30.4.60			
563,486	Profits attributable to Fitch Lovell Limited		674,562
	Deduct: Transfer to General Reserve	4,371	
	Transfer to Premium Account	35,916	
	Debenture Stock Redemption Fund	22,527	
	Unappropriated Profits retained by Group Companies	279,374	
317,797			342,188
245,689	Amount available for distribution		332,374
61,903	Add: Balance brought forward from previous year		69,031
307,592			401,405
238,561	Deduct: Dividends paid and proposed		319,027
69,031	Unappropriated Profits of Fitch Lovell Limited		82,378
268,894	Add: Unappropriated Profits retained by Group Companies		279,374
	Group Company Balances brought forward	970,714	
	Deduct: Balances of Companies Liquidated	39,336	
	Transfer to Special Capital Reserve	22,440	
701,820		61,776	908,938
<u>£1,039,745</u>	Unappropriated Profits of the Group		<u>£1,270,690</u>

The transfer to Premium Account represents the requisite proportion of profits of additional Companies transferred pursuant to Part II of the 8th Schedule of the Companies Act, 1948.

5. AUTHORISED SHARE CAPITAL OF FITCH LOVELL LIMITED

		£
30.4.60		
150,000	150,000 6% Cumulative Preference Shares of £1 each	150,000
100,000	100,000 5% Redeemable Cumulative Preference Shares of £1 each	100,000
850,000	1,600,000 6½% Cumulative Preference Shares of £1 each	1,600,000
604,562	23,140,000 Ordinary Shares of 2s. 6d. each	2,892,500
1,533,438	12,267,500 "B" Ordinary Shares of 2s. 6d. each	—
1,762,000	2,060,000 Unclassified Shares of 2s. 6d. each	257,500
<u>£5,000,000</u>		<u>£5,000,000</u>

ISSUED SHARE CAPITAL OF FITCH LOVELL LIMITED

		£
30.4.60		
142,301	142,301 6% Cumulative Preference Shares of £1 each fully paid	142,301
	100,000 5% Redeemable Cumulative Preference Shares of £1 each fully paid (Redeemable from 1st January, 1960, to 31st December, 1999)	100,000
850,000	1,129,974 6½% Cumulative Preference Shares of £1 each fully paid	1,129,974
604,562	23,140,000 Ordinary Shares of 2s. 6d. each fully paid	2,892,500
1,533,438	12,267,500 "B" Ordinary Shares of 2s. 6d. each fully paid	—
<u>£3,230,301</u>		<u>£4,264,775</u>

FITCH LOVELL LIMITED

NOTES ON ACCOUNTS (continued)

6. SPECIAL RESERVES—GROUP BALANCE SHEET

30.4.60																£
1,330,500	Premium on Shares Account	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2,800,870
188,235	Surplus attributable to Valuation at Par of Bonus Shares received	..	..	..	..	..	..	..	..	..	..	..	..	..	..	173,979
—	Group Company's Profits Capitalised	..	..	..	..	..	..	..	..	..	..	..	..	..	..	22,440
116,545	5% Debenture Stock redeemed	..	..	..	..	..	..	..	..	..	..	..	..	..	..	140,177
17,952	5% Debenture Stock Redemption Fund	..	..	..	..	..	..	..	..	..	..	..	..	..	..	18,937
<u>£1,653,232</u>																<u>£3,156,403</u>

7. GENERAL RESERVE—GROUP BALANCE SHEET

30.4.60																£
300,226	Balance at 30th April, 1960	..	..	..	..	..	..	..	..	..	..	..	..	..	..	327,692
27,553	Add: Appropriations from Profits	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4,371
—	Foreign Exchange Fluctuations	..	..	..	..	..	..	..	..	..	..	..	..	..	..	7
<u>327,779</u>																<u>332,070</u>
87	Deduct: Foreign Exchange Fluctuations	..	..	..	..	..	..	..	..	..	..	..	..	..	..	—
—	Balances of Liquidated Companies	..	..	..	..	..	..	..	..	..	..	..	..	..	11,470	11,470
<u>£327,692</u>																<u>£320,600</u>

8. DEBENTURES AND MORTGAGES

30.4.60																£
1,683,455	5% Debenture Stock 1968-78 (Secured)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1,359,823
—	Foreign Debentures and Mortgages	..	..	..	..	..	..	..	..	..	..	..	..	..	..	209,562
<u>£1,383,455</u>																<u>£1,569,385</u>

9. SPECIAL RESERVES—FITCH LOVELL LIMITED

30.4.60																£
1,321,388	Premium on Shares Account	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2,791,758
183,251	Surplus attributable to valuation at Par of Bonus Shares received	..	..	..	..	..	..	..	..	..	..	..	..	..	..	171,376
<u>£1,504,639</u>																<u>£2,963,134</u>

From the amount of £1,321,388 standing to the credit of Premium on Shares Account at the 30th April, 1960, £241,825 has been capitalised in connection with the allotment of 241,825 6½% Preference Shares of £1 each to holders of Ordinary Shares upon the equalisation of the voting rights of the Ordinary and the former "B" Ordinary Shares.
£1,712,195, the net premium after deduction of expenses, arising upon the issue of further Share Capital for cash or otherwise, has been credited to the Premium on Shares Account pursuant to the provisions of Section 56 of the Companies Act, 1948.
The reduction of £11,875 in the Surplus attributable to valuation at par of Bonus Shares received is due to the liquidation of certain Group Companies (not wholly owned) during the 52 weeks ended 29th April, 1961.

10. CAPITAL PROFITS RESERVES—FITCH LOVELL LIMITED

30.4.60																£
251,181	Balance at 30th April, 1960	..	..	..	..	..	..	..	..	..	..	..	..	..	..	229,876
75	Add: Capital Profits Realised	..	..	..	..	..	..	..	..	..	..	..	..	..	..	46,019
<u>251,256</u>																<u>275,895</u>
21,380	Deduct: Bonus on Ordinary Shares proposed	..	..	..	..	..	..	..	..	..	..	..	..	..	..	28,925
<u>£229,876</u>																<u>£246,970</u>

11. No accounts are available for consolidation in respect of one subsidiary Company acquired during the period and information required by the Companies Act, 1948, 8th Schedule, Part II (4) is not obtainable.

12. The difference arising on inter-Company accounts owing to the variation in accounting dates amounts to £76,032.

13. The total amount of Capital Commitments not provided for in these Accounts is estimated at £820,000. Contingent Liabilities of Subsidiary Companies at home and abroad amount to approximately £311,000.

14. In connection with the initial liability under an employees pension scheme, in respect of past services, certain subsidiary companies have obligations (not provided for in these Accounts) which will be discharged by 21 future annual payments of £33,072.

15. Foreign exchange conversions in subsidiary companies' accounts have been made as to fixed assets at the rates prevailing at the date of acquiring control of the overseas companies with the subsequent additions and depreciation at the rates applicable to the years concerned; as to fixed loans at the corresponding sterling advances; and as to current assets and liabilities at the market rates at 29th April, 1961.

CITY NOTES

STOCK-MARKETS continue to lead a rather hand-to-mouth existence. Almost every week the City is 'awaiting' something, be it a big company result like that recently from Imperial Chemical, or some pronouncement like the speech of the Chancellor at this week's Bankers' Dinner. But when, in the event, the news is finally out and discounted, the House is still left with much of its earlier uncertainty.

Only evidence that the credit squeeze has proved effective to a point that it can really be relaxed, will be sufficient to sustain any real recovery. The optimists look for the upturn shortly, the pessimists see little prospect until the Budget in April. Possibly it will be a gradual process which will be only really seen in retrospect. Meanwhile investors as a general rule elect to keep their powder dry.

Rights issues still provide a reasonable avenue for fresh capital but even here, sustained market conditions are necessary to give continuing attraction to such offers.

RATES AND PRICES

Closing prices, Wednesday, October 4th, 1961

Tax Reserve Certificates: interest rate (12.8.61) $3\frac{1}{2}\%$

Bank Rate

June 19, 1958	5%	June 23, 1960	6%
Aug. 14, 1958	$4\frac{1}{2}\%$	Oct. 27, 1960	$5\frac{1}{2}\%$
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%

Treasury Bills

July 28	£6 13s 9.22d%	Sept. 1	£6 14s 0.50d%
Aug. 4	£6 14s 3.33d%	Sept. 8	£6 12s 10.81d%
Aug. 11	£6 14s 8.51d%	Sept. 15	£6 11s 10.99d%
Aug. 18	£6 14s 1.83d%	Sept. 22	£6 10s 6.51d%
Aug. 25	£6 14s 0.12d%	Sept. 29	£6 11s 0.48d%

Money Rates

Day to day	$5\frac{1}{2}$ – $6\frac{1}{2}\%$	Bank Bills	
1 days	$5\frac{1}{2}$ –6%	2 months	$6\frac{1}{8}$ – $6\frac{7}{8}\%$
Five Trade Bills		3 months	$6\frac{1}{8}$ – $6\frac{7}{8}\%$
3 months	$7\frac{1}{2}$ – $8\frac{1}{2}\%$	4 months	$6\frac{1}{8}$ – $6\frac{7}{8}\%$
4 months	$7\frac{1}{2}$ – $8\frac{1}{2}\%$	6 months	$6\frac{1}{8}$ –7%
6 months	8–9%		

Foreign Exchanges

New York	2.81 $\frac{1}{8}$ –82	Frankfurt	11.24 $\frac{1}{2}$ – $\frac{3}{4}$
Montreal	2.89 $\frac{1}{2}$ –90	Milan	174 $\frac{1}{2}$ – $\frac{3}{4}$
Amsterdam	10.15 $\frac{1}{8}$ – $\frac{7}{8}$	Oslo	20.01 $\frac{1}{2}$ –02
Brussels	140.10 $\frac{1}{2}$ – $\frac{3}{4}$	Paris	13.83 $\frac{1}{2}$ –84 $\frac{1}{2}$
Copenhagen	19.37 $\frac{1}{2}$ – $\frac{3}{4}$	Zürich	12.16 $\frac{1}{2}$ – $\frac{3}{4}$

Gilt-edged

Consols 4%	58 $\frac{1}{2}$	Funding 3% 59–69	79 $\frac{1}{2}$
Consols 2 $\frac{1}{2}$ %	38 $\frac{1}{2}$	Savings 3% 60–70	76 $\frac{1}{2}$
Conversion 5 $\frac{1}{2}$ % 1974	90 $\frac{1}{2}$	Savings 3% 65–75	68 $\frac{1}{2}$
Conversion 5% 1971	89 $\frac{1}{2}$	Savings 2 $\frac{1}{2}$ % 64–67	82 $\frac{1}{2}$
Conversion 3 $\frac{1}{2}$ % 1969	82 $\frac{1}{2}$	Treasury 5 $\frac{1}{2}$ % 2008–12	82 $\frac{1}{2}$
Conversion 3 $\frac{1}{2}$ %	51 $\frac{1}{2}$	Treasury 5% 86–89	79 $\frac{1}{2}$
Exchequer 5 $\frac{1}{2}$ % 1966	96 $\frac{1}{2}$	Treasury 3 $\frac{1}{2}$ % 77–80	67 $\frac{1}{2}$
Funding 5 $\frac{1}{2}$ % 82–84	89 $\frac{1}{2}$	Treasury 3 $\frac{1}{2}$ % 79–81	66 $\frac{1}{2}$
Funding 4% 60–90	85	Treasury 2 $\frac{1}{2}$ %	37 $\frac{1}{2}$
Funding 3 $\frac{1}{2}$ % 99–04	56 $\frac{1}{2}$	Victory 4%	93 $\frac{1}{2}$
Funding 3% 66–68	81 $\frac{1}{2}$	War Loan 3 $\frac{1}{2}$ %	52 $\frac{1}{2}$

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for the opinions expressed.

Should Britain Decimalize?

SIR, – Following the recent article on the decimalization of British currency (September 16th issue), it is possible that your readers will be interested in the following scheme which I first outlined in a letter published in *The Financial Times* of May 12th, 1960.

My proposal is that the guinea be adopted as our main currency unit. A very small adjustment in its value (which would not affect the value of existing coins since none of this denomination is in use) would make it worth one thousand farthings. A decimal system perfectly compatible with the present one is thereby obtained.

No coin valued at one farthing is advocated, this merely being a common factor for conversion purposes. New coins in decimal denominations would, of course, be struck but these would all have exact equivalents in the coinage now current which could continue to circulate indefinitely.

Historically the guinea has probably at least as great a claim to be our main currency unit as has the pound and has a much better claim than any artificial unit on the pattern of the South African Rand.

Yours faithfully,

Birmingham 13 R. B. BROCKINGTON.

Proof of Debts in Winding Up

SIR, – The writer on 'Proof of debts in winding up', in your issue of September 16th, seems to have been faced with the difficulty of condensing the subject-matter into a short article. In the process, the points of law involved in the case of *Re E. J. Morel (1934)* Ltd have been lost. The whole of the *All England Report* is worth reading in detail.

The bank account referred to as No. 1 was a loan account and the point seems to be that from the very nature of a loan account as opposed to an overdraft there is an implied condition of contract that a credit balance on current account shall not be set off to reduce the amount of the advance.

No evidence appears to have been brought as to whether there is any further implied condition that in the event of liquidation the principal money immediately becomes repayable. The learned judge's remark that the first grounds for his decision might be wrong may imply that he would have been willing

to listen to evidence on the point had it been offered. There was no purpose in calling further witnesses as the second grounds for his decision gave precisely the same result. The reasoning behind these second grounds seems to be that the liquidator can avail himself of the debtor's right to appropriate and elect to set off the credit balance, first, against the preferential part of the debt.

I believe it would be of quite wide general interest to have other readers' views on the points I have raised.

Yours faithfully,
W. F. WEAVER.

London SW5.

Preference Shareholders' Right to Surplus Assets

SIR, — In your issue dated September 9th, 1961, an article appeared by Mr Spencer G. Maurice dealing with the rights of preference shareholders in a winding up and including an extract from the judgment of Buckley, J., in the case of *Dimbula Valley (Ceylon) Tea Co Ltd v. Laurie*.

His lordship is reported as saying: [*sic*]

' . . . that it had long been the generally accepted view of the law in England (though not established by judicial authority) that if the surplus on capital account resulted from a valuation made in good faith by competent valuers . . . it might properly be capitalized . . . (and) that such a surplus might properly be distributed by way of dividend . . . where the regulations of the company permitted. . . '

We had always understood on the authority of Byrne, J., in *Foster v. The New Trinidad Lake Asphalt Co Ltd* that such a distribution could only be made on the further condition that the capital profit was in fact realized.

It may be that in the present case we are reading too much into a summary of the proceedings, nevertheless it would be instructive to have some clarification of this point for if the law has indeed changed then the matter is of no little importance.

Yours faithfully,
M. J. GREENER,
E. COCKSON-JONES,
R. T. BAILEY.

Staffordshire College of Commerce,
Wednesbury.

[Mr Maurice writes: In *Dimbula Valley (Ceylon) Tea Co Ltd v. Laurie* ([1961], 1 All E.R. 769) Buckley, J., has given judicial authority to the view propounded in *Palmer's Company Law*, 20th edition, pages 645, 646, that there is nothing in law to prevent an unrealized profit resulting merely from a revaluation of fixed assets being distributed as dividend. The view that the capital profit must first be realized can, therefore, no longer be sustained. Buckley, J., did not refer directly to *Foster v. New Trinidad Lake Asphalt Co Ltd* ([1901], 1 Ch. 208), but it is clear that he had it in mind when he referred ([1961], 1 All E.R. 781) to the fact that in *Westburn Sugar Refineries Ltd v. C.I.R.* (39 A.T.C.

128) both the Lord President (Lord Clyde) and Lord Sorn referred to dicta in English cases which 'related to realized capital appreciation, not to surpluses founded on estimates of value'. Buckley, J., did not follow the *Westburn* case, and pointed out the difference between his interpretation of the passage in *Palmer* referred to above and that of the Lord President, who appears to have interpreted it as meaning that there could be no distribution of an appreciation which was neither realized nor immediately realizable. In differing from the Court of Session Buckley, J., cited *Hill v. Permanent Trustee Co of New South Wales* ([1930], A.C. 720) as authority for the proposition that a capitalization of the kind in question was in essence the declaration of a dividend combined with the application of that dividend on behalf of the shareholders entitled to participate in it in paying up shares to be allotted and issued to them in satisfaction of their rights of participation. His lordship said that as a general rule — he referred to the exceptions — only that which could be distributed in dividends could be capitalized; if, therefore, the Court of Session was right in holding that a reserve fund constituted as a result of a revaluation of unrealized fixed assets could not legally be distributed, it seemed to follow that it likewise could not legally be capitalized. His lordship cited *C.I.R. v. Thornton, Kelley & Co Ltd* (37 A.T.C. 71) in support of the generally accepted view that if the surplus on capital account resulted from a valuation made in good faith by competent valuers it might properly be capitalized. In the result the law of England and the law of Scotland must be taken to be different so far as concerns the point at issue. But it is not to be expected that the practice which the law of England is now seen to permit will be commonly followed for, as Buckley, J., himself pointed out, it was not normally to be regarded as wise commercially. The prudence of the practice is doubted in a note on the *Dimbula* case in *The Modern Law Review*, volume 24, pages 525, 530.]

Stranger than Fiction!

SIR, — Can any readers beat this?

AUDITOR (*in discussion with client*):

We don't seem to be able to find the returned cheque files for the farm, 1958–59.

CLIENT:

They were eaten by a crocodile.

AUDITOR:

Crocodile! I don't think you quite heard me. We can't find the returned cheques for 1958–59.

CLIENT:

I tell you they were eaten by a crocodile.

It's like this; during the '58 high floods on the Zambesi, the farm office was nearly submerged by the high water and when the water had receded we returned to discover a crocodile in the office. There were no returned cheques to be found. I tell you the crocodile ate them.

Yours faithfully,
R. G. HOOLE.

Bulawayo, Southern Rhodesia.

LONDON STUDENTS' COLUMN

News from the London Chartered Accountant Students' Committee

By a Student Member

Mr M. O'Brien was welcomed on to the Committee in place of Mr M. W. Russell who has resigned.

Miss V. D. Jaycock, who undertook a great deal of work as chairman of the Dances Subcommittee, has resigned following her marriage. The committee greatly appreciated her services and she goes with their very best wishes for the future.

Residential Courses Subcommittee

Mr W. K. Wells, B.A., F.C.A., and Mr G. B. C. Hughes, B.A., A.C.A., were re-elected chairman and vice-chairman respectively for 1961-62.

The total number of applications for the Oxford Course received up to the specified date was 262, which coincided exactly with the number of places available. (A report of the course appeared in last week's issue of *The Accountant*.)

Parker Report Subcommittee

This committee settled the comments to be made by the Society on the Parker Report. These comments, which have already been circulated amongst the committee members and agreed, have now been sent to the Council of the Institute.

Future Activities

President's Meeting

The speaker at the President's Meeting in Guildhall, on October 18th, will be the Hon. George A. Drew, P.C., Q.C., LL.D., High Commissioner for Canada. The Lord Mayor has promised to be present.

Annual Dinner

The President has arranged that the toast of 'The Students' Society' will be proposed by the Hon. Sir Leslie Scarman, who has recently been appointed a judge of the High Court. The response to the toast of 'The Guests' will be by Mr Bernard Miles, of the Mermaid Theatre, and the toast of 'The Institute' will be proposed by Mr Roy Thomson, of Thomson Newspapers. The date of the dinner is December 11th.

Union of Chartered Accountant Students' Societies

The next conference of the Union will be held at Brighton on December 8th and 9th. The C.A.S.S.L. has three delegates.

If any reader has any points that he might like brought up at this meeting, he is asked to get in touch with the Secretary of the Students' Society so that the Committee can have the suggestions before them.

Christmas Dance

Arrangements for the dance are now well in hand. The price of a double ticket will be £2 15s. The place, the Lyceum, off the Strand, and the dancing will probably be from midnight until 6 a.m.

Recent Activities

Parties of students have visited the National Provincial Bank and Lloyds Bank.

The following cricket results have been reported:

- v. *Bournemouth Students' Society*
Bournemouth 163-8 declared.
London C.A.S.S. 160 all out.
- v. *King's College, Cambridge*
King's 194-6
London C.A.S.S. 194-8 declared.
- v. *Blackheath Nondescripts*
Blackheath 199-8
London C.A.S.S. 198-5 declared.

The '59 Club' held a debate with nurses from the Middlesex Hospital. The motion before the house: 'This house delights in travelling up to town every day'. The motion was defeated.

The '59 Club' also organized a hitch-hiking race to the St George and Dragon Hotel, at Wargrave. Many people started, a few finished, several were eliminated for 'gross cheating', and Mr Barry Moll was the winner.

The 'Taverners' organized a River Boat Shuffle, and since the idea of dancing and drinking on a river boat proved so successful, they were forced to organize a further trip to cater for the disappointed people unable to join the first one.

The 'Students' Club', organized independently by certain members of the Society, is open, and the membership is approaching 1,000. The committee of the Club will soon be launching a further drive to increase membership.

Some thirty-five students and girl friends spent a delightful holiday fortnight at La Escala on the Costa Brava. Some found it rather more of an endurance test than a holiday, but everyone enjoyed themselves very much. Thanks are due to Mr Dennis Waters for organizing everything so well.

Next Week's Meetings

The following meetings of the Students' Society will be held next week:

Monday, 5.30 p.m., at the Institute, Moorgate Place, EC2: Lecture on 'Good and bad evidence', by Mr F. R. G. Lowe, B.A., LL.B., Barrister-at-law.

Tuesday, 5.30 p.m., at the Institute: Introductory lecture to mechanized accounting course by Mr Dudley W. Hooper, M.A., F.C.A., chief organizing accountant, National Coal Board. *6 p.m.*, at the Institute: Talk on 'How to prepare a speech', by Miss H. M. Taylor, principal, The Abbey School for Speakers.

Thursday, 5.15 p.m., at the Institute: Introductory course lecture on 'The chartered accountant's profession', by Mr R. J. Carter, B.COM., F.C.A., secretary of the Students' Society. *6 p.m.* at the Students' Club, 41 Beak Street, W1: 'The Taverners' - Annual general meeting.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on 'The fundamentals of business', by Mr R. J. Carter, B.COM., F.C.A., and 'The English judicial system', by Mr P. W. Medd, Barrister-at-law.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS ANGUS, WHITING & Co, Chartered Accountants, announce that their address is now 7 & 8 Poultry, London EC2. Telephone: City 6634.

MESSRS ARTHUR BASS & Co, Chartered Accountants, of 37-38 Chancery Lane, London WC2, announce that Mr RICHARD W. BRAND, A.C.A., has been admitted into partnership as from October 1st, 1961. The name of the firm remains unchanged.

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co and Messrs DELOITTE, PLENDER, HASKINS & SELLS announce that, consequent upon the acceptance by Mr T. J. FOSTER STUART, C.A., of a general appointment with their South American organization, he retired from partnership in their associated firms in Chile on September 30th, 1961. Mr JOHN C. PERT, C.A., was admitted as a partner in the Chilean firms on October 1st, 1961, and retired from the associated firms in Uruguay.

MESSRS DELOITTE, PLENDER, ROBSON, MORROW & Co, Chartered Accountants announce the retirement on September 30th, 1961, of Mr WILFRED D. TURNER, C.A., on reaching the normal retiring age. They also announce that on October 1st, 1961, they admitted to partnership Mr KENNETH HOARE, A.C.A., who has been a member of the staff of DELOITTE, PLENDER, GRIFFITHS & Co for many years.

MESSRS GODDARD, MELLERSH & LEPINE, Chartered Accountants, announce that Mr F. G. MELLERSH, M.A., F.C.A., who has been a partner for more than thirty-five years, retired on September 30th, 1961, but will continue to be available to the firm as a consultant. The practice will be carried on under the same name by the remaining partners. They also announce that as from September 30th the London office address is 7 Warwick Court, Gray's Inn, London WC1. Telephone: Holborn 9141-2.

MESSRS THOMAS MAY & Co, Chartered Accountants, of Allen House, Newarke Street, Leicester, announce that Mr E. L. BATES, A.C.A., who has been a member of the staff for fifteen years, was admitted to the partnership on September 23rd, 1961.

MESSRS McCLELLAND, MOORES & Co, Chartered Accountants, of London and Liverpool, announce that they have taken into partnership, with effect from October 1st, 1961, Mr ANDREW GORDON BIGGART, C.A., and Mr SAMUEL STEVENSON, JUN., C.A.

MESSRS McCLELLAND, MOORES & Co, Chartered Accountants, of Glasgow, announce that they have taken into partnership, with effect from October 1st, 1961, Mr ROBERT YOUNG SMITH, B.L., C.A.

MR A. McBROOM, F.A.C.C.A., and Mr J. S. HAYWOOD, F.C.A., the partners of McBROOM, HAYWOOD & Co, 275 Ecclesall Road, Sheffield 11, announce that, by mutual agreement, the partnership was dissolved on September 30th, 1961. Mr McBROOM has taken into partnership Mr A. I. McBROOM, A.C.A., and the new

firm will practise under the style of McBROOM & Co from the same address. Mr HAYWOOD has taken into partnership Mr P. R. HAYWOOD, A.C.A., and the new firm will practise under the style of HAYWOOD & HAYWOOD from 22 Wilkinson Street, Sheffield 10 and 29A High Street, Rotherham.

MESSRS WHEAWILL & SUDWORTH, Chartered Accountants, of 10-12 Cork Street, London W1, announce that Mr T. H. GODSMARK, A.C.A., became a partner on May 1st, 1961. Mr J. PITCHERS, F.C.A., retired from the partnership on April 30th, 1961, on being appointed a full-time executive director of a public company.

MESSRS JAMES MESTON & Co, Chartered Accountants, of 10-12 Cork Street, London W1, announce that Mr T. H. GODSMARK, A.C.A., became a partner on May 1st, 1961. Mr J. PITCHERS, F.C.A., retired from the partnership on April 30th, 1961, on being appointed a full-time executive director of a public company.

MESSRS N. N. PAMPEL, F.C.A., and R. J. BASKIN, A.C.A., practising as N. N. PAMPEL, BASKIN & Co, 130 High Holborn, WC1, and BRYAN, MANNAY & Co, 36 Great Russell Street, WC1, announce that as from Monday, October 2nd, 1961, the address of both practices is 24 Bedford Row, London WC1. Telephone: Chancery 9121-2.

MESSRS PEAT, MARWICK, MITCHELL & Co announce that Mr JAMES ALAN WARDROPPER, B.A., A.C.A., has been admitted to partnership in their Newcastle office with effect from October 1st, 1961.

MESSRS PEAT, MARWICK, MITCHELL & Co (West Riding partnership) announce with regret that, after forty-two years' association with the firm, Mr KENNETH S. MORRISON, C.A., retired from the practice as from September 30th, 1961.

MESSRS RUSSELL, DURIE KERR, WATSON & Co, Chartered Accountants, and MESSRS C. J. VANE & KING, Chartered Accountants, announce that they have amalgamated their practices as from October 1st, 1961, and that the amalgamated practices will, as from that date, be conducted from the present address of MESSRS RUSSELL, DURIE KERR, WATSON & Co, at Lombard House, Great Charles Street, Birmingham 3. All the partners practising in MESSRS RUSSELL, DURIE KERR, WATSON & Co and in Messrs C. J. VANE & KING have become partners in the amalgamated firm. MESSRS RUSSELL, DURIE KERR, WATSON & Co also announce that as from October 1st, 1961, they have taken into partnership Mr M. D. STIRLING, A.C.A., Mr B. J. A. BENNETT, A.C.A., and Mr R. D. RANDALL, A.C.A.

MR H. GRAHAM HOUSE, M.A., PH.D., F.A., F.C.C.S., practising as GRAHAM HOUSE & Co, 174-176 High Street, Hounslow, Middlesex, announces that he has been joined in partnership by Mr JAMES F. WILSON, F.A.C.C.A., A.T.I.I., who has for some time been the general manager of the practice. The new firm will be carried on under the style and title of GRAHAM HOUSE,

WILSON & Co, with address and telephone numbers unchanged. MR H. GRAHAM HOUSE also announces that he has opened a new Southern office at Barnham, Sussex. Telephone: Eastergate 2065.

MESSRS BLICK, ROTHENBERG & NOBLE announce that they have moved their offices to 7 Fitzroy Square, London W1. Telephone: Euston 9991.

Appointments

Mr Frederick Rider, F.C.A., has been appointed a director of Drescott Clothes Ltd and Town Mills Ltd of Dudley and Cannock.

Mr John T. Lewis, O.B.E., F.C.A., has been appointed a director of Staveley Industries Ltd. He has relinquished his directorships of two Staveley group companies, Bradley & Foster Ltd and Birmingham Chemical Co Ltd.

Lieut.-Col. C. A. C. Turner, C.B.E., T.D., F.C.A., general manager of The Artizans' & General Properties Co Ltd, has been appointed managing director.

Mr Norman Readman, F.C.A., has been appointed chairman of Consolidated Pneumatic Tool Co.

Mr F. Shutt, F.C.A., has been appointed financial comptroller of Hawker Siddeley Industries Ltd.

Mr N. A. Harrison, F.C.A., secretary of Harrap Bros (Sirdar Wools) Ltd, has been appointed to the board.

OBITUARY

**William Jenkins Gibson, J.P., C.A.,
F.C.W.A., F.C.I.S.**

It is with regret that we record the death at the age of 63 of Mr W. Jenkins Gibson, J.P., C.A., F.C.W.A., F.C.I.S., financial director of Hadfields Ltd, of Sheffield, and deputy managing director of the subsidiary company, Millspaugh Ltd.

A native of Glasgow, Mr Gibson was admitted to membership of the former Institute of Accountants and Actuaries in Glasgow in 1922 whilst on the staff of Messrs Peat, Marwick, Mitchell and Co, Chartered Accountants, of Glasgow. He was admitted an Associate of The Institute of Cost and Works Accountants in 1931 and became a Fellow in 1957. He was also a Fellow of The Chartered Institute of Secretaries.

Mr Gibson was transferred to the Sheffield office of Peat, Marwick, Mitchell in 1922 and joined Hadfields Ltd as assistant to the secretary in 1927. His career at Hadfields was marked by a steady progression through the offices of chief accountant, local director in 1937, and financial director in 1946.

A Justice of the Peace since 1954, Mr Gibson was also actively connected with many local voluntary organizations, in particular the Boy Scout movement, of which he was district commissioner for the City of Sheffield, and in the world of the theatre as an amateur actor, author, playwright and producer.

CHARTERED ACCOUNTANT MEMBER OF NEW TOWNS COMMISSION

Mr J. D. Russell, M.A., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales and a partner in Messrs Binder, Hamlyn & Co, Chartered Accountants, is one of the four members of the Commission for the New Towns appointed by the Minister of Housing and Local Government on September 29th.

NATIONAL INSURANCE: GRADUATED CONTRIBUTIONS

Members of the Forces

Mr John Boyd-Carpenter, Minister of Pensions and National Insurance, has asked the National Insurance Advisory Committee to consider and report on draft regulations¹ containing miscellaneous provisions concerning the operation of the graduated pensions scheme affecting members of H.M. Forces.

The draft regulations describe the extent to which existing national insurance provisions affecting members of the forces apply to graduated contributions; contain provisions ensuring that National Service Grants and pay for short periods of territorial and reserve training do not lead to liability for graduated contributions, and lay down the arrangements for assessing graduated contributions on naval pay, and define the liability for flat-rate contributions where (as on release leave) members of the forces are also in a civilian employment which is contracted out.

The Committee will consider representations on these draft regulations received by them not later than October 24th. Representations should be made in writing and should be sent to the Secretary, National Insurance Advisory Committee, 10 John Adam Street, London WC2.

OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade have announced that as from September 1st, 1961, Mr Leslie Robert Bates has been appointed an Assistant Official Receiver to act as assistant to any Official Receiver appointed for the purposes of the Companies Act, 1948, and attached to the High Court.

They also announce that Mr Arthur David Gwyther has been appointed to be an Inspector of Official Receivers attached to the office of the Inspector General in Bankruptcy (London) with effect from September 11th, 1961, and that Mr William Austin Driskell has been appointed Official Receiver for the Bankruptcy District of the County Courts of Plymouth and Torquay with effect from September 11th, 1961, and for the Bankruptcy District of the County Courts of Truro and Falmouth with effect from October 1st, 1961.

¹ The draft National Insurance (Members of the Forces) Amendment Regulations, 1961. H.M.S.O. Price 4d.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

AMERICAN UNIVERSITY AWARD

Mr Peter J. Dickerson, B.Sc. (ECON.), has been awarded a one-year teaching assistantship at the University of California. Mr Dickerson, who is a graduate of the London School of Economics, gained sixth place in the May 1961 Final examination of The Institute of Chartered Accountants in England and Wales, and is a Leverhulme Prizewinner of The Institute of Cost and Works Accountants.

**BIRMINGHAM AND DISTRICT SOCIETY
OF CHARTERED ACCOUNTANTS****Week-end Course at Keele**

The Birmingham and District Society of Chartered Accountants, in association with its Stoke-on-Trent Branch, held a week-end course from September 22nd to 24th, at the University College of North Staffordshire, Keele. The course was attended by sixty members and two papers were given: 'The chartered accountant in the 'sixties - recent developments in professional accountancy especially training, ethical conduct and the career of the qualified member', by Mr T. A. Hamilton Baynes, M.A., F.C.A., a member of the Council of the Institute, and 'Recent investment trends, including the effect of the Trustee Act', by Mr G. H. Ross-Goobey, F.I.A., F.S.S., F.I.S.

Mr C. Malkin, F.C.A., Chairman of the Stoke Branch, presided at the opening and closing meetings; Mr E. Buxton, F.C.A., acted as course chairman, and Mr N. E. Dunning, F.C.A., as course secretary. Mr C. Mason, President of the Birmingham and District Society, presided at the guest dinner, at which Mr S. Dixon, M.A., F.C.A., a member of the Council of the Institute, proposed a toast to the University College of North Staffordshire, and Prof. W. A. C. Stewart, Acting Principal, responded.

**MANCHESTER CHARTERED ACCOUNTANTS'
STUDENTS' SOCIETY****Saturday Morning Lectures at Preston**

At a meeting of the Joint Tuition Committee of the Manchester Senior and Students' Societies held on September 26th, it was decided that Part I of the 1961-62 Final lecture series at Preston should be suspended forthwith.

The reason for the decision is that only seven enrolments had been received for the Preston Final course, and the students concerned have been informed that, if they wish to attend the Final lectures at Manchester, their travel from Preston to Manchester will be subsidized.

A decision regarding Part II of the Final lecture series at Preston, which is due to begin on December 2nd, is to be taken in about eight weeks' time.

**THE LEEDS, BRADFORD AND DISTRICT
SOCIETY OF CHARTERED ACCOUNTANTS**

The annual golf meeting of The Leeds, Bradford and District Society of Chartered Accountants was held at Ganton Golf Club on September 22nd in perfect weather and was attended by thirty-seven members of the Society.

The competition for the Blackburn Cup, played for under handicap on the Stableford system, resulted in a tie between Mr G. H. Smith and Mr S. Jones (the holder) with 39 points each, and the cup was awarded to Mr Smith with the better score over the last nine holes. Mr Smith also won the Holliday Cup for the best gross score with a good return of 74.

The leading scores were as follows:

<i>Blackburn Cup</i>					<i>Points</i>
G. H. Smith	(2)	..	..	..	39
S. Jones	(5)	..	..	..	39
D. L. T. Creer	(8)	..	..	..	36
J. C. Boyce	(15)	..	..	..	36
H. Billbrough	(14)	..	..	..	34
K. Russam	(6)	..	..	..	34
A. J. Waring	(12)	..	..	..	34
<i>Holliday Cup</i>					<i>Gross</i>
G. H. Smith	..	..	..	..	74
S. Jones	..	..	..	..	77
D. L. T. Creer	..	..	..	..	81
T. L. Waring	..	..	..	..	81
K. Russam	..	..	..	..	82

The competitors were pleased to receive a visit during the afternoon from the President of the Society, Mr James S. Heaton, F.C.A., and the Honorary Secretary of the Society, Mr James Whitehead, F.C.A. Mr Heaton presided at the presentation of the trophies.

**LIVERPOOL SOCIETY OF
CHARTERED ACCOUNTANTS**

In a match played on September 28th, at the Bromborough Golf Club, the Liverpool Society of Chartered Accountants defeated the Liverpool Law Golfing Society by five matches to one, with one halved.

**THE INSTITUTE OF INTERNAL AUDITORS
Birmingham Chapter**

The next meeting of the Birmingham Chapter of The Institute of Internal Auditors will be held at the Chartered Auctioneers and Estate Agents Institute, Regent House, St Philip's Place, Birmingham 3, on Thursday next, October 12th, commencing at 6.30 p.m. Light refreshments will be available from 6 p.m.

The speaker will be Mr C. H. Price, of the General Electric Co Ltd, and his subject 'Incentive schemes'. New members will be welcome and inquiries should be addressed to the Secretary, Mr R. C. J. Lucas, West Midlands Gas Board, 39/41 Hagley Road, Birmingham 16.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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East Midlands Chapter

The East Midlands Chapter of The Institute of Internal Auditors is holding its next meeting in the Welbeck Hotel, Milton Street, Nottingham, on October 17th, at 7.45 p.m., when Mr J. H. Protheroe, chief internal auditor, The British Oxygen Company Ltd, will speak on 'Internal auditing standards in industry'.

Further information regarding the activities of the Chapter may be obtained from the secretary, Mr L. S. Copping, 26 Exton Road, Nottingham

BRITISH COMPUTER SOCIETY

The annual meeting of The British Computer Society was held in London on September 26th. Mr D. W. Hooper, M.A., F.C.A., chief organizing accountant of the National Coal Board, was appointed President of the Society in succession to Dr F. Yates, F.R.S., who becomes a Vice-President, together with Mr H. W. Gearing, B.Sc.(ECON.), F.C.I.S., F.I.S., and Mr A. Geary, M.Sc.

The annual report for the year ended April 30th, 1961, shows that membership of the Society continues to rise and now numbers 2,240, compared with 2,118 in the previous year. An event of note during the year was the granting by the Board of Trade in July of a licence to omit the word 'Limited' from the name of the Society, and the report records the Council's appreciation to Mr E. E. Boyles, F.C.A., a Vice-President of the Society, for his prolonged efforts in securing this distinction.

During the 1960-61 session a series of eleven meetings was held in London and attendances were satisfactory, ranging from sixty to 400. All of the Society's branches reported a successful year. The Education Committee have considered the role which the Society should play in the training of computer personnel, with emphasis on courses for students who have no well-defined career structure. At present, the report states, there are about 5,000 employed as computer supervisors, programmers, coders, operators, etc. By 1965 the number is likely to be in the region of 20,000.

THE INSTITUTE OF OFFICE MANAGEMENT**One-day Conference in Glasgow**

The eleventh annual one-day conference and exhibition, organized by the Glasgow and West of Scotland Branch of The Institute of Office Management, will be held in St Andrew Hall, Glasgow, on Wednesday, November 8th. Mr N. C. Pollock, M.B.E., F.I.O.M., of Stewarts and Lloyds Ltd, will read a paper on 'Payroll - initiation, preparation and analysis'.

Further particulars may be obtained from the conference secretary, Mr C. Maclean, Weir Housing Corporation Ltd, Calder Street, Coatbridge, Lanarkshire.

REVENUE PAPER**Michaelmas Sittings, 1961**

The following cases are down for hearing during the Michaelmas Term:

HOUSE OF LORDS

Winter and Others v. C.I.R. (awaiting judgment).

COURT OF APPEAL

Ackland & Pratten Ltd (in liquidation) v. C.I.R.

Henty & Constable (Brewers) Ltd v. C.I.R.

Ridge Nominees Ltd v. C.I.R.

Johnson v. Jewitt.

Godden v. A. Wilson's Stores (Holdings) Ltd.

British Commonwealth International Newsfilm Agency Ltd v. Mahany.

HIGH COURT (Chancery Division)

E. Y. L. Trading Co Ltd v. C.I.R.

Vestey v. C.I.R.

C.I.R. v. Vestey.

Butter v. Bennett.

Walter W. Saunders Ltd v. Dixon

Fay v. C.I.R.

Norman v. Evans.

Lucy and Sunderland Ltd v. Hunt.

C.I.R. v. Hood Barrs.

Erddig Motors Ltd v. McGregor.

Erddig Motors Ltd v. C.I.R.

Fitch Lovell Ltd v. C.I.R.

C. E. Neale & Co Ltd (in voluntary liquidation) v. Beak.

May Oil Burner (England) Ltd (in liquidation) v. C.I.R.

STAMP MEMORIAL LECTURE

A Stamp Memorial Lecture on 'Problems of the American economy', by Professor Paul A. Samuelson, Ph.D., Professor of Economics at the Massachusetts Institute of Technology, will be given on November 9th at 5.30 p.m. at the University of London, Senate House, (entrance from Russell Square or Malet Street, WC1).

The chair will be taken by The Rt. Hon. Lord Robbins, C.B., B.Sc.(ECON.), D.LITT., F.B.A. The lecture is addressed to students of the University and to others interested in the subject. Admission is free, without ticket.

CORRECTION

A misprint occurred in the price of the Monrobot XI computer given on page 433 of last week's issue. The price should have read £12,500 approx.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Results of Examinations held in September 1961

PART IV

Of the 350 candidates who sat Part IV of the Institute's examination on September 5th, 6th and 7th, 1961, the undernoted 142 (40.57 per cent) passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

- Adam, (Miss) C. M. S. (Reid & Mair), Glasgow
 Ahmed, S. F. (W. J. M. Kean & Co), Edinburgh
 Allan, M. H. (Martin Currie & Scott), Edinburgh
 Arnott, W. T. (John E. Watson & Co), Glasgow
 Banks, G. L. (Alfred Tongue & Co), Glasgow
 Barrie, H. (Rogerson & Goldie), Kilmarnock
 Barron, I. R. (J. G. Williamson & Smellie), Glasgow
 Benzie, G. G. (A. & C. M. Davidson Smith), Edinburgh
 Bonnyman, B. E. (McClelland, Moores & Co), Glasgow
 Brown, J. W. C. (Russ, Ferguson & McLennan), Glasgow
 Brown, S. J. (McClelland, Moores & Co), Glasgow
 Burford, D. M. P. (Chalmers, Wade & Co), London
 Burnett, R. S. (Stuart & Stuart), Dundee
 Burnett, R. G. (John M. Geoghegan & Co), Edinburgh
 Burrell, J. F. M. (Howden & Molleson), Edinburgh
 Campbell, (Miss) F. (George A. Touch & Co), London
 Campbell, G. C. (Miller, McIntyre & Gellatly), Perth
 Carrick, G. W. (Mann, Judd, Gordon & Co), Glasgow
 Chamberlain, J. M. (Hamilton-Eddy & Walker), London
 Chisholm, F. R. (Wilson, Stirling & Co), Glasgow
 Clark, G. S. (R. C. Thomson & Murdoch), Dundee
 Cochrane, W. (Thomas Kelly & Co), Glasgow
 Cruickshank, C. A. D. (Jas. A. Jeffrey & Co), Aberdeen
 Cruickshank, J. P. (T. C. Garden & Co), Edinburgh
 Dakers, W. M. (A. & J. Robertson), Edinburgh
 Dawkins, R. H. T. (Thomson McLintock & Co), London
 Ellis, G. C. (Clunie & Scott), Edinburgh
 Few, D. H. (Thomson McLintock & Co), London
 Findlay, C. M. (Fleming & Black), Glasgow
 Fleming, J. D. (John E. Watson & Co), Glasgow
 Fletcher, I. K. (Thomas Smith & Sons), Glasgow
 Forrow, M. S. (Peat, Marwick, Mitchell & Co), London
 Fothergill, D. B. (A. C. Philp & Co), Dunfermline
 Fraser, I. D. (Turner, Hutton & Patrick), Glasgow
 Fulton, W. (Smith & Wallace), Kilmarnock
 Gallacher, E. F. (Girdwood, Allison & Logan), Glasgow
 Gibbons, G. A. (C. S. Denham & Co), London
 Gibson, J. S. (McClelland, Moores & Co), Glasgow
 Glashan, J. I. (James Milne & Co), Aberdeen
 Glass, D. A. (Wallace & Somerville), Edinburgh
 Gordon, W. (John E. Watson & Co), Glasgow
 Gray, A. W. (Boyack, Whitelaw & Aitchison), Edinburgh
 Gray, J. C. (Nairn, Bowes & Craig), Glasgow
 Guy, W. L. (Wilson, Stirling & Co), Glasgow
 Hamilton, C. H. (Lindsay, Jamieson & Haldane), Edinburgh
 Harris, P. J. (McClelland, Moores & Co), London
 Hart, J. A. B. (McClelland, Moores & Co), London
 Henderson, A. M. (Henderson & Loggie), St Andrews
 Henderson, M. A. (A. C. Philp & Co), Dunfermline
 Hendry, J. (Bertram G. Samuels & Co), Glasgow
 Houston, R. K. (Wilson, Stirling & Co), Glasgow
 Humble, H. S. (MacLean, Brodie & Frogie), Glasgow
 Hunter, G. J. F. (Moody Stuart & Robertson), Dundee
 Hunter, H. (John E. Watson & Co), Glasgow
 Hunter, I. R. (Don & Stewart), Dundee
 Jackson, (Miss) S. H. (McClelland, Moores & Co), London
 Johnston, W. G. (Alexander McOmish, Hart & Co), Glasgow
 Johnstone, J. K. G. (Moody Stuart & Robertson), Dundee
 Jones, S. M. (Cooper Brothers & Co), Glasgow
 Judge, H. G. (John M. Geoghegan & Co), Edinburgh
 Kapur, S. K. (J. R. D. Campbell), Edinburgh
 Kelly, J. G. (William J. Young & Brown), Glasgow
 Kennedy, R. G. S. (Kerr, MacLeod & Macfarlan), Glasgow
 Kennedy, W. M. C. (Martin Currie & Scott), Edinburgh
 Key, B. S. (Moody Stuart & Robertson), Dundee
 Kilgour, D. R. (Robertson & Carphin), Edinburgh
 King, F. C. (Chrystal, McIntyre & Co), Glasgow
 Kirkpatrick, J. C. (Wylie & Bisset), Glasgow
 Kwok, R. C.-K. (McClelland, Moores & Co), Glasgow
 Lang, G. W. (J. Stirling Brown & Co), Glasgow
 Lanigan, R. (Mann, Judd, Gordon & Co), Glasgow
 Lauder, G. A. (McClelland, Moores & Co), Glasgow
 Linter, D. (Thomson McLintock & Co), Glasgow
 Low, C. A. S. (Mackay, Irons & Co), Dundee
 McAndrew, N. (Peat, Marwick, Mitchell & Co), London
 Macaulay, D. (Howden & Molleson), Edinburgh
 McCool, J. G. (Geddes, Beaton & Co), Edinburgh
 McCrae, J. (Todd & Gordon), Glasgow
 Macdiarmid, D. C. (McIntyre & Rae), Dundee
 McDonald, A. C. (Richard Brown & Co), Edinburgh
 McDonald, J. K. (John H. Fraser & Crawford), Greenock
 McGlynn, J. G. (Wilson, Stirling & Co), Glasgow
 McIntosh, D. C. (Henderson & Loggie), Dundee
 MacKay, W. J. (William Smith & Co), Inverness
 McKean, (Miss) G. P. (Romanes & Munro), Edinburgh
 Mackenzie, D. H. (Grahams, Rintoul & Co), Glasgow
 McLachlan, (Miss) E. A. (McFarlane, Hutton & Patrick), Glasgow
 McLaren, J. M. (D. M. McNaught & Co), Glasgow
 McLean, A. (Grahams, Rintoul & Co), Glasgow
 McLeish, A. P. (Moody Stuart & Robertson), Dundee
 McLelland, G. (Finnie, Ross, Welch & Co), Glasgow
 MacLeod, A. H. (McLay, McAlister & McGibbon), Glasgow
 McLeod, F. C. H. (G. K. Johnston & Smillie), Edinburgh
 McSwan, M. (Geddes, Beaton & Co), Edinburgh
 Marshall, J. B. (McClelland, Moores & Co), Glasgow
 Mawer, C. G. (Nairn, Bowes & Craig), Glasgow
 Mein, S. C. (Wylie & Hutton), Edinburgh
 Miller, J. F. (McClelland, Moores & Co), Glasgow
 Milne, R. C. (Brown, Fleming & Murray), London
 Mulvein, G. (Mann, Judd, Gordon & Co), Glasgow
 Munro, H. F. (John E. Watson & Co), Glasgow
 Murray, C. A. (McClelland, Moores & Co), London
 Murray, M. (Gillespie & Anderson), Glasgow
 Orr, R. I. (Galbraith, Dunlop & Co), Glasgow
 Page, W. O. (Martin Currie & Scott), Edinburgh
 Palmer, E. (Galbraith, Dunlop & Co), Glasgow
 Penrose, G. W. (Kirk & Johnston), Glasgow
 Porter, J. B. (Peat, Marwick, Mitchell & Co), Newcastle upon Tyne
 Porter, R. M. (Thomson McLintock & Co), Glasgow
 Ramsay, R. W. (Wylie & Bisset), Glasgow
 Richardson, A. M. G. (Wallace & Somerville), Edinburgh
 Roy, A. T. (Dickson, Middleton & Co), Stirling
 Russell, G. W. (McKerrell Brown & Gray), Edinburgh
 Sakol, D. R. (Kerr, MacLeod & Macfarlan), Glasgow
 Samuel, L. A. (French & Cowan), Glasgow
 Scouller, B. J. M. (Paterson & Steel), Glasgow
 Sheridan, R. W. (Robert G. Morton & Son), Edinburgh
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 Sinclair, A. G. (Boyack, Whitelaw & Aitchison), Edinburgh
 Sinclair, R. I. (John E. Watson & Co), Glasgow
 Smart, R. B. (McClelland, Moores & Co), Glasgow
 Smith, E. J. C. (Wallace & Somerville), Edinburgh
 Smith, I. D. (McClelland, Moores & Co), London
 Sowersby, J. (Howden & Molleson), Edinburgh
 Spence, A. G. (W. S. Brown, MacDonald & Fleming), Berwick-on-Tweed
 Stephens, M. L. S. (Brown, Fleming & Murray), Glasgow
 Sutherland, C. I. (J. W. & R. N. Oswald), Edinburgh
 Taylor, A. (J. G. Williamson & Smellie), Glasgow
 Taylor, G. G. (W. A. Findlay & Co), Dundee
 Thaw, J. C. (Nelson, Gilmour, Scott & Co), Glasgow
 Tint, R. (Galbraith, Dunlop & Co), Glasgow
 Tomney, D. A. (Russ, Ferguson & MacLennan), Glasgow
 Wagener, J. R. S. (Dingwall, Peden & Henderson), Edinburgh
 Walker, A. G. O. (McClelland, Moores & Co), London
 Walton, A. (Craston Thomson & Allison), Glasgow
 Watters, P. (J. W. Stewart & Co), Glasgow
 Wise, G. A. (Turner, Hutton & Patrick), Glasgow
 Wood, R. M. (Robertson, Davies & Co), Glasgow
 Wright, A. B. (Flockhart & Grant), Aberdeen
 Wright, C. D. (Miller, McIntyre & Gellatly), Dundee
 Zahid, M. A. H. (Davidson & Workman), Glasgow

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Stock Valuation Problems

IT is perhaps surprising that in this year 1961, over eighty years after the granting of our Royal Charter, it is still possible to find wide scope for discussion in relation to the determination of the most suitable figures for inclusion in annual accounts and balance sheets for stock-in-trade and work in progress. With these words MR H. W. SYDENHAM, F.C.A., opened the paper entitled 'Some considerations in relation to the accounting treatment of stock-in-trade and work in progress' which he presented at the Summer Course of The Institute of Chartered Accountants in England and Wales in Cambridge last month and which is reproduced in part in this issue.

Many of the 160 or so members assembled at Caius College might have been excused if they in turn expressed some astonishment at MR SYDENHAM's surprise that the subject of stock valuations for accounting purposes should still be a matter of debate. For it was only in November last that the Institute itself published a pronouncement on the subject, replacing its previously expressed views of fifteen years earlier - a fact which demonstrates the lively and continuing discussion the topic has excited. Even now, Recommendation No. 22 on 'Treatment of stock-in-trade and work in progress in financial accounts' finds that there are no fewer than four 'normal' bases for computing stock valuations; furthermore the word 'cost' which features in the definition of each of these four bases has itself three separate definitions. Having thus given twelve 'normal' alternatives, the recommendation refers to four 'special bases' and as a further admission that there can be no ready rule-of-thumb formula warns members

'that the amount included for stock [should be] determined for the whole of the stock at the balance sheet date on bases and by methods which are considered appropriate in the circumstances of the business and have been applied consistently'.

Perhaps one of the most noticeable qualities in the paper is the author's modesty; in fact one could almost say with OLIVER GOLDSMITH: 'All men have their faults; too much modesty is his'. His title begins with the words: 'Some considerations in relation to . . .' but thereafter he gives a comprehensive review of most of the recognized methods of stock valuations for balance sheet purposes. The paper falls into three main parts, suitably 'topped and tailed', but an illustration of the scope of his subject is that it is not until he reaches the 'tail' that MR SYDENHAM admits to having made no reference either to the need for consistency as between one year and another in the bases adopted for stock valuations, or to

the Eighth Schedule of the Companies Act, 1948.

The first main section of the paper is entitled 'The time factor' and includes a closely-reasoned thesis on the stages involved in the operations of a business which has the object of trying to define the point at which profit is earned. In the course of his reasoning MR SYDENHAM poses the question whether any profit is truly earned until full payment has been received for the goods sold or the services rendered, in spite of the generally accepted accounting practice of taking credit for profit when an invoice is rendered. If it were possible to account for each transaction separately no question would arise of how to deal with unsold stock or unpaid accounts, but legal requirements generally impose upon a business the need to prepare accounts covering all the transactions arising in any one year. In dealing with this obligation MR SYDENHAM emphasizes the annual aspect with a pleasant and rather unusual phrase by regarding

'the earlier year as having an obligation to protect the following year from all disadvantages arising from the course of events in the earlier year, and [by regarding] the following year as entitled to a clean start'.

In this way he is able to come within reasonable distance of agreement with the normal bases set out in Recommendation No. 22, although the definition of 'net realizable value' as selling price 'after allowing for all expenditure to be incurred on or before disposal' is picked out as being ambiguous — does it, for instance, include a proportion of future running expenses including selling expenses? — and he is not too happy with the description of 'replacement price'.

So far there is quite a measure of common ground between Recommendation No. 22, MR SYDENHAM and his readers, but when we come to the part entitled 'The inclusion of oncost in stock' the gloves really begin to come off. Starting from opposite corners, the 'direct cost-ers' and the 'oncost-ers' advance on one another only to hesitate when within battling distance as if halted by PROFESSOR JOAD's classic: 'It all depends what you mean by . . .'. At first it seems clear that MR SYDENHAM knows what he means by direct cost, for he defines this as including only those expenses

'which have been directly incurred because particular things have been made, and which would not otherwise have been incurred'.

But it is sad to see that even one so clear-headed and single-minded has to admit later on that

'the distinction between variable overheads and direct expenses tends to become a very fine one' and that

'it cannot be doubted that few overheads are absolutely static and most of them will ultimately increase as an undertaking grows'.

In fact, it is here that MR SYDENHAM really has to abandon the logical approach envisaged at the beginning of his paper and virtually to admit that accountancy, being an art and not a science, must depend ultimately on the exercise of common sense.

In that part of the paper dealing with 'Taxation and oncost' we find some interesting comments on the *Duple* case from one whose understanding of it is second to none. It is made quite clear that this is a tax case — a point sometimes overlooked by accountants — and so can give no lead as to which basis or method should be adopted for computing work in progress for the purposes of financial accounts. As always, this remains a matter of judgment having regard to the facts and circumstances of the situation.

It is an interesting exercise to see in what ways MR SYDENHAM differs from the Institute's Recommendation No. 22. He feels that considerably less oncost (if any at all) should be carried forward in stock or work in progress than is allowed by the recommendation and he seeks a more precise definition than 'normal overheads'; he is prepared, moreover, to take a more drastic view of falls in market prices when reducing cost to net realizable value or to replacement price. Thus far his differences are in the direction of conservatism; on the other hand, he looks for greater flexibility in changing the bases and methods of computation used in determining the value attributed to stock, should the management think it advisable.

In all fairness, the Institute can perhaps be forgiven for leaving it to its members to answer each problem: 'To be, or not to be: that is the question.' MR SYDENHAM, however, as chairman of Duple Motor Bodies had the definite advantage in being able to give the order: 'Out damned spot! out, I say!'

Loss of Exempt Private Status Confirmed

by A BARRISTER-AT-LAW

IN *Qualter, Hall & Co Ltd v. Board of Trade* ([1961] 1 All E.R. 210) (*The Accountant*, February 11th, 1961) an exempt private company within Section 129 of the Companies Act, 1948, carried on a family business and all the issued shares of the company were held by thirteen members of the family. In 1955 it reorganized its share capital and capitalized £75,000 of reserves. It used this sum to pay up in full at par 50,000 unissued 6½ per cent £1 cumulative preference shares and 25,000 unissued 'A' ordinary shares of £1 each, all of which were allotted to the 'B' ordinary shareholders (who held the equity shares in the company).

Pursuant to an arrangement between the company and Estate Duties Investment Trust Ltd (EDITH) the members renounced their rights to the new preference shares and 'A' ordinary shares in favour of EDITH and four other banking or finance companies, the purpose being to put the members in funds for the payment of death duties, as and when liability to duty arose, without jeopardizing the private nature of the business.

Under new articles of association adopted by the company, the preference shareholders and the 'A' ordinary shareholders were entitled to vote at a general meeting of the company if (a) as regards the preference shareholders only, their dividend was six months in arrear at the date of the notice convening the meeting, or (b) as regards both classes of shareholders, the meeting was called to consider a resolution of a kind specified in the articles. The company applied to the Court to determine the question whether, in the events which had happened, it had ceased to be an exempt private company.

Statutory Provisions

By paragraph 1 of Schedule VII to the Companies Act, 1948, the first basic condition for being an exempt private company is that no body corporate is the holder of any of the company's shares or debentures; but this condition is subject to exceptions, including one enacted by paragraph 7 (1) of the schedule where a

'banking or finance company acquired the shares or debentures . . . in the ordinary course of its business as such and by arrangement with the company or its promoters'.

This exception is headed 'Exception for banking or finance company providing capital', but it is excluded by a proviso

'if the banking or finance company has the right (or, where there is more than one such company holding shares or debentures to which this exception has to be applied in determining the relevant company's right to be treated as an exempt private company, they have between them the right) to exercise or control the exercise of one-fifth or more of the total voting power at any general meeting of the relevant company'.

'Banking or finance company' is defined in paragraph 9 of the schedule as meaning

'any body corporate or partnership whose ordinary business includes the business of banking and any other body corporate whose ordinary business includes the business of lending money or of subscribing for shares or debentures'.

Decision of High Court

As indicated in the earlier article, Cross, J., had held (i) that the words of paragraph 7 (1) of the schedule, read in conjunction with the definition of 'banking or finance company' in paragraph 9, were not clear and unambiguous (because paragraph 7 spoke of the position where the banking or finance company 'acquired' the shares etc. in the ordinary course of its business 'as such', while paragraph 9 defined a banking or finance company as meaning any body corporate etc. whose ordinary business 'includes' the business of banking and any other body corporate whose ordinary business 'includes' the business of lending money or of 'subscribing' for shares or debentures). In consequence of such ambiguity, his lordship considered himself entitled to look for assistance in construing paragraph 7 of the schedule to the central heading under which it was printed, viz. 'Exception for banking or finance company providing capital'. 'Providing capital', he said, meant providing it for the company and did not include the purchase of shares by finance companies from shareholders, so that the exception contained in paragraph 7 (1) did not apply and the company had lost its exempt status.

The learned judge also held (ii) that if the

company had come within the exception in paragraph 7 (1) (e.g. if EDITH and the other four companies had 'provided' fresh capital for the family company instead of purchasing the new shares after they had been allotted to the members), the company would not have been taken out of the paragraph by the proviso to it, because the words 'any general meeting' in the proviso meant 'any and every general meeting'. As it was only in certain events that the five finance companies would be entitled to exercise or control the exercise of one-fifth or more of the total voting power of the company, they could not do so at any and every general meeting.

Views of Court of Appeal

The Court of Appeal (Pennycuik, J., not concurring) ([1961] 3 All E.R. 389) affirmed the decision of Cross, J., on (i) but reversed him on (ii). It, too, thought it legitimate to consider the cross-heading to paragraph 7 of Schedule VII in interpreting the meaning of the paragraph. In so doing it applied dicta of Lord Herschell in *Inglis v. Robertson and Baxter* ([1898] A.C. 616, 630) and Viscount Simonds in *A.-G. v. H.R.H. Prince Ernest Augustus of Hanover* ([1957] 1 All E.R. 49, 53). The cross-heading spoke of 'providing capital', and it meant providing capital for the company, not purchasing shares from shareholders. Harman, L.J., however, said he agreed with Cross, J., 'with much hesitation', and Pennycuik, J., thought the words 'acquired' and 'by arrangement with the relevant company or its promoters' in paragraph 7 gave rise to great difficulty. On the face of them they were appropriate to cover the purchase of shares or debentures from an existing holder with the concurrence of the company. In his view the taking over of debentures from an existing holder who had called in his debt might be within the policy of the schedule, notwithstanding that it did not involve the provision of capital for the company. If paragraph 7 (1) was treated as confined to the subscription for new shares or debentures, the word 'acquired' was inappropriate and the words 'by arrangement with the relevant company or its promoters' appeared to have no significant meaning. He would abstain from expressing a concluded view on the point.

'Any General Meeting'

All three judges of the Court of Appeal agreed that even if the family company had been prima

facie within the exception in paragraph 7 (1), it would have been excluded by the proviso, because the proviso applied if there could be 'any general meeting' at which the banking and finance companies would be entitled to exercise one-fifth or more of the total voting power, and did not predicate that such companies must have that measure of control at every general meeting. Donovan, L.J., said it had been argued for the family company that the proviso to paragraph 7 (1) applied only where a body corporate had a right to a constant proportion of the total voting power, but the proviso was not directed to such a case alone, though prima facie it would cover it. It contemplated also the case where, looking at numbers of votes alone, the banking or finance company could exercise or control the exercise of more than one-fifth of them.

Commentary

It is clear that the decision of the Court of Appeal, so far from doing anything to lessen one risk of an exempt company's losing its status as such, has added yet another. True, it indicates the obvious courses to be taken if this result is to be avoided. The position in the present case would have been otherwise if the new shares had been allotted to the finance companies in the first place, and there had been no circumstances in which those companies could have controlled one-fifth or more of the total votes of the family company. But will circumstances always be so accommodating as to make the loss of exempt status easy to escape? It is not difficult to imagine cases where they will not. Harman, L.J., said that until 1948 private companies had the best of both worlds in that they enjoyed the privilege of limited liability without the obligation of disclosing their accounts. 'This anomalous privilege was largely corrected by Section 127 of the Act of 1948, but by Section 129 a privileged few [*sic*] were allowed to retain it.' In fact, the recent decision will affect not only a privileged few. The majority of registered companies are private companies, and the majority of private companies are exempt companies, so that its impact could be widely felt. In view of the hesitation and doubt expressed on point (i) in the present case by two judges of the Court of Appeal, and the difficulties which often beset owners of private companies in making provision for death duties, it would be interesting, to say the least, if, in the not distant future, the point were to come before the House of Lords.

Profit – Fact or Fiction? — II

by M. J. GREENER, B.A., A.C.A.

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IN the first part of this article consideration was given to the nature of surpluses arising from fluctuations in value of current assets and non-wasting fixed assets. Consideration must now be given to the position in relation to that much wider category of fixed assets, those of a wasting kind. The problems here are far more complex if only because the factor of depreciation must inevitably be introduced and we shall do no more than attempt to indicate some of the more important principles involved.

For the sake of simplicity we shall use the term 'wasting assets' in a restricted sense, confining its application to those assets which have a limited useful life and fall to be replaced at frequent intervals during the career of the business. The most obvious example of such an asset is one coming under the heading of 'Plant and machinery'.

A machine is normally shown in the ledger at cost. At the same time a 'Reserve for depreciation' account is built up out of profits in such a way that, at the end of the useful life of the machine, the balance on this account is more or less equal when added to the scrap value of the machine, to the balance on the machine account. Both balances can then be eliminated from the books without disturbing the capital position of the business. The accepted purposes of charging depreciation are, firstly, to recover the cost of the machine against the profits arising from its use and, secondly, to ensure that sufficient funds are retained in the business for the replacement of the machine at the end of its useful life.

Effect of Inflation

It may help us in our inquiry if we consider a particular case. We shall imagine a company with a subscribed capital of £10,000 invested in one machine with an expected life of ten years. The opening balance sheet of the company will effectively read:

BALANCE SHEET

Capital	£10,000	Machine	£10,000
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Year-for-year, depreciation on the

machine of £1,000 is written off out of revenue profits. At the end of the ten-year period then, assuming no further assets have been purchased and all available income has been distributed, the balance sheet will read:

BALANCE SHEET

£		£	£
Capital	10,000	Machine	10,000
		Less depreciation	10,000
			nil
		Sundry liquid assets	10,000

We now have funds available to replace the machine. This is quite satisfactory provided that the replacement cost of the machine has not risen, due either to a relative increase in price of the particular item or to a general fall in the value of money.

Suppose, a not unlikely supposition, that the general price level has, over the ten years, risen by 50 per cent. Other things being equal, the machine will now cost £15,000 to replace. Unfortunately the capital available for the replacement is only £10,000. The company is considerably worse off than when it started. It has, in fact, failed to maintain its capital intact. In order to have done so it would have been necessary to provide out of income, during the preceding ten years, an additional £5,000. But this is not all. Because of the present state of the tax laws, this sum would have to be accumulated out of taxed income. Assuming taxation to be 10s in the pound it would be necessary to earn paper profits of £10,000 merely to maintain the original capital. Alternatively, we can state that over the ten-year period the company must obtain an apparent return on capital invested of 10 per cent per annum (before taxation) in order to stand still. Not until sums are earned in excess of this amount can one speak of any real profit being available either for expansion or for distribution as dividend. Here is a clue to the paradox referred to earlier, namely, the contradiction between apparent profitability and inability to expand. The company in our example prudently accumulates, over ten years, reserves equivalent to 50 per

cent of its subscribed capital. It appears to be prosperous when in fact it is stagnant.

The Accountant's Responsibility

The example we have taken is by no means absurd. Although perhaps over-simplified it is fairly representative of the position in industry generally throughout this post-war era, and goes some way to explain the difficulties attendant on any attempt to finance expansion by the ploughing back of profits. This could seldom be done without showing in the annual accounts a retained net profit figure of a size to cause convulsions at both the shareholders' meeting and the T.U.C.

What can the accountant do about it? Truly he can do nothing to reform 'the iniquitous tax laws', but he can, in the accounts he prepares, do something to make the true position apparent. Above all he can, as was suggested earlier, begin calling things by their right names; he can restrict the use of the word 'profit' to amounts representing real increases in wealth and, in particular, he can refrain from giving the label 'profit' or 'reserve' to amounts which in effect represent part of the subscribed capital of the business.

Replacement Reserves

Perhaps the position will become clearer if we return to our previous illustration. The company in question possessed a machine costing £10,000 and found it necessary to provide an additional £5,000 for eventual replacement. The prudent accountant would, following Institute recommendations, have built up a 'replacement reserve' of this amount over the life of the machine. The balance sheet at the end of the ten years would then read:

BALANCE SHEET				
£		£	£	
Capital	.. 10,000	Machine at cost	.. 10,000	
Fixed asset replacement reserve	.. 5,000	Less: depreciation	10,000	nil
		Sundry liquid assets		15,000

Sufficient funds would now be available for the replacement of the asset. The position is apparently satisfactory. We say 'apparently' because there are two serious criticisms which must be

made. In two separate ways the balance sheet contrives, though prepared in accordance with accepted principles, to give an artificial picture of the position of the business.

In the first place, and as has already been noted, the word 'reserve' carries overtones of profit. (This is, of course, more true of revenue reserves – but even these are frequently used to finance the increased cost of replacing assets, particularly current assets.) The word 'reserve' in the present context, then, tends to obscure the fact that in an inflationary period sums set aside for replacement of assets far from being profit, represent the effective depreciation of nominal capital. They do no more than maintain the purchasing power of the capital originally subscribed.

If this is so, then quite clearly the practice of treating sums set aside for asset replacement as allocations of profit is wrong. The cost of maintaining capital intact is unquestionably a charge against profits and not an allocation thereof.

The second main criticism of the above balance sheet lies in this. The machine is shown at cost less depreciation calculated on that cost. We have already argued that assets are properly shown in a balance sheet at their value in use to the business. Now the value of the machine to the business at any time is its replacement cost less depreciation calculated on that figure and, consequently, these are the figures which should appear in the balance sheet.

More Instructive

Were the company in question to accept these various criticisms and give effect to the suggestions implied then the balance sheet at the end of the ten-year period would read:

BALANCE SHEET			
£			£
Capital	.. 10,000	Machine (at replacement cost)	.. 15,000
[sic] Amount set aside for depreciation of capital	5,000	Less: depreciation	15,000
		Sundry liquid assets	15,000

It is suggested that this balance sheet is far more instructive (apart from being both truer and fairer) than the balance sheet prepared on 'accepted principles'. In order to obtain this result it would be necessary to revalue the machine on the basis of replacement cost at regular intervals and credit any resulting surplus account headed [sic] 'Amount set a

depreciation of capital'. The surplus could, of course, be employed for purposes of an issue of bonus shares, but even this tends to give the impression of a capitalization of profits – an impression best avoided when, in fact, no profits have been earned. It need not, perhaps, be emphasized that such a surplus on revaluation, inasmuch as it represents part of the original capital, can never (even if the machine is sold and not replaced) be available for distribution as dividend. Depreciation of the machine in our example would be calculated on the replacement cost, periodic adjustments of the balance on the depreciation reserve being necessary. The full cost of maintaining capital will now be a charge against profits.

It will be objected that this method is not always easy to apply, replacement costs being frequently difficult to estimate. Moreover, in practice, machines may not be replaced by similar units. Before seeking to meet these objections, it is salutary to point out that difficulty of application in no way detracts from the importance of the principle. That said, we must now distinguish between the replacement of a machine by an improved version of that machine and its replacement by a far more elaborate or completely different unit.

Element of Improvement

In the first case it will normally be found that in stable currency conditions, 'run of the mill' improvements are usually effected without noticeable increases in price. Any substantial price increase can therefore safely be ascribed to inflation and dealt with accordingly. In the second case the problem is rather more formidable. Here, taking a stable currency, the increased cost of a new or more elaborate machine represents an addition to the real capital employed. If this additional capital is found out of profits then the sum needed represents an allocation of real profit and should be shown in the balance sheet as a capital reserve. This allocation is necessarily an appropriation of, and not a charge against, profits. Note that in this case the old machine would not be revalued for balance sheet purposes, as the value in use of that machine to the business has not changed.

In an inflationary period the position is more complex. The increased replacement cost now consists of two parts; the one part representing additional capital required, the other part representing the depreciation of the original

capital. Each part should be accounted for separately. In practice this may be extremely difficult (though not always as troublesome as at first supposed), but some effort should nevertheless be made – on the basis, perhaps, of the present replacement cost of the old unit.

Where, although the amounts are material, it is not found possible to identify the inflationary element in the cost of renewal or replacement this is no ground for abandoning the problem of capital depreciation altogether. It may be found impossible to revalue the assets but, in the last resort, the problem can be tackled from the other side. The actual depreciation of capital can be measured by applying a price index to the capital figure itself, the amount needed to keep up the purchasing power of that capital then being included as a charge against the profits of the particular year. Apart from the Institute's misgivings, this method is not entirely satisfactory for present purposes if only because, although it allows a suspicion of reality to be injected into the capital section of the balance sheet, assets continue to be shown at historical cost which bears no necessary relation to their present worth, in use, to the business.

Duty to Investors

It is apparent, even from this brief survey, that the problem of estimating (and classifying) profit in face of fluctuations in the replacement cost of assets generally, and wasting assets in particular, bears of no easy solution. An attempt has been made to indicate certain possible avenues of approach in varying circumstances and to outline one or two of what seem to be the main principles involved. It is not possible at this point to sum up, as the inquiry itself has been conducted in summary fashion. If anything is to be said in conclusion it must surely be this. If the profit and loss account is to reflect a true profit, and if the balance sheet (whatever its historical origin) is to fulfil its proper function of giving the investor an insight into the true state of affairs of the business, then the accountant must begin a serious re-examination of both methods and principles. He must cease to think of himself as an historian and get down to the job of providing real and useful information in an intelligible manner. Or does he prefer to be known for a cynic – a man who, in his published accounts, can most surely be seen to know the price of everything and the value of nothing?

(Concluded.)

Some Considerations in Relation to the Accounting Treatment of Stock-in-trade and Work in Progress - I

by H. W. SYDENHAM, F.C.A.

PART I INTRODUCTION

Generally

IT is perhaps surprising that in this year 1961, over eighty years after the granting of our Royal Charter, it is still possible to find wide scope for discussion in relation to the determination of the most suitable figures for inclusion in annual accounts and balance sheets for stock-in-trade and work in progress, although they are ingredients in most of the accounts we prepare or audit in the course of the daily pursuit of our profession and they directly affect in large measure the import of the statements for which we take responsibility.

2. This is not to say, however, that there has been no progress in the intervening time. It seems possible that the *Kingston Cotton Mill* case in 1896 which gave judicial approval to the notion that an auditor could usually rely on the certificate of trusted officials for stock figures had a delaying effect on the full study of this subject. It is interesting to note in passing that in that case the decision of the High Court was adverse to the auditor, but was reversed on appeal – thus even at that time there was not complete unanimity on the extent of the auditor's responsibility for stock. But professional practice has moved on since that time, and accountants and auditors have on the whole now come to accept a considerably larger degree of responsibility for stock figures than that of restricting themselves to reliance on a suitable certificate from a trusted official. The standards of care and skill of the profession have changed, and it might not be safe to assume that a new invocation of the law, which on this subject would be likely to reflect current practice, would produce the same results in 1961 as in 1896.

3. However that may be, in recent times, and in

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particular since the Companies Act, 1948, brought a new legislative attitude towards the contents and precision of accounts of limited companies, the vital part played by stock figures and consequently their importance to accountants and auditors has, I believe, become increasingly recognized.

The recommendations of the Council of the Institute in relation to stock-in-trade, first made in 1945, and more recently much revised and extended in November of last year, have played a large part in this progress, and their reception is symptomatic of the acute interest which is justifiably taken in current thought on this subject. The succession of cases in the Courts in relation to taxation matters affecting various special aspects of stock figures shows the extent of the parallel interest in this subject which is being taken by the Inland Revenue.



Mr H. W. Sydenham

The Institute's Recommendations

4. The new recommendations issued by the Council of the Institute in November 1960 have clearly resulted from much work and consideration. For convenience of reference they have been reproduced in full in Appendix 1.¹ They break a good deal of new ground and revise some of the older propositions previously established. In some respects they make complete and precise recommendations of a new character – I refer especially to the questions of disclosure and descriptions in balance sheets – but in many other directions they recognize the wide scope for variations which can arise in practice. Inevitably therefore they leave to management and to the individual practitioner the exercise of the judgment which is necessary to decide the actual course to be taken in the circumstances of particular cases. That this is both wise and

¹ The Appendix is not now reproduced. The Institute Recommendation referred to – 'No. 22. Treatment of Stock-in-Trade and Work in Progress in Financial Accounts' – appeared in *The Accountant* of November 1960.

necessary is unassailable; but the practitioner himself needs his own definite lines of thought to provide his individual means of solving in practice problems which often will be far from easy. No doubt most of us have our own views and preferences which provide a background for the exploration of matters of this kind as they arise, but the new and clearer insights into old problems which have resulted from the progressive interest which has developed in stock questions in recent years may justify some re-examination of established ideas, and may sometimes show a case for their modification or revision.

Approach

5. I do not intend in this paper to make any attempt to deal comprehensively with all the very many aspects of the determination of the amounts to be attributed to stock-in-trade and work in progress in annual accounts. I propose to confine my inquiries to a limited number of issues which can be dealt with in more than one way, and in relation to which topical interest arises from either the recent recommendations, or the *Duple* case,¹ or both.

6. I intend to trace my explorations from first principles, and if my reasoning at some stages seems over simple to an expert body of readers, my excuse must be that where in the end two conclusions are possible, I must start from the beginning so that others who may have different views may discover the points where divergence begins.

7. Probably the most far reaching and challenging subject on which I shall touch is that of the inclusion or exclusion of oncost in respect of manufactured stocks, finished and unfinished. I have thought this to deserve a separate part of this paper. It will, however, fit essentially into the main stream of my analysis, and draw something from all that precedes it.

8. This paper is not intended to deal primarily with taxation aspects of the subject; my main objective will be to attempt by logical reasoning and by individual judgment to distinguish between alternative methods. I do, however, propose to make some reference to tax considerations in particular respects, for there are notable differences between the latitude permissible in arriving at a business view of these matters, and the limits which must be observed for taxation. Taxation is wholly the creature of the statutes, which, illuminated by the cases, fix somewhat inflexibly the rules of law which must be applied in relation to this aspect of the matter and leave less room for independent study of this sometimes difficult subject than is available when it is considered from more general accounting viewpoints.

9. The point of departure from which I propose to begin is a study of the simple case of a trading concern and an examination of the stages of its course of trading, the point at which stock needs to be taken into account, and its relationship to the ingredients which go to make up completed transactions. From

this I hope to show the nature of some of the alternatives which face the accountant at various stages in the process.

10. I should add here that my own preferences will appear as the exploration progresses, and I recognize that they may not always be unchallengeable. I am of course expressing my personal views and the reader will see that I sometimes find myself in some disagreement with parts of the Council's Recommendation 22.

PART II

THE TIME FACTOR

Stages in the Earning of a Trading Profit

11. The stock of today is gone tomorrow; the stocks represented by the figures in a balance sheet will normally consist wholly or almost wholly of different goods from those represented by the entry in the previous balance sheet. The amounts attributed to the stocks at any year-end are therefore essentially of purely temporary significance; they bridge the trading from one year to the next. Consequently a study of the time when a trading profit arises is a leading factor in examining the principles upon which the amounts to be attributed to stock should be determined.

12. I suggest that the course of trading operations of an undertaking, whether its activities include manufacturing or other productive work or not, may be divided into clearly distinct and recognizable stages.

13. It may be said that trade consists of acquiring the ownership of objects and selling them in an organized manner, with a view to profit. The stages into which the direct operations involved naturally fall are as follows:

- (a) Acquiring the objects which are to be sold (and this may include manufacturing).
- (b) Holding the objects in possession until required.
- (c) Selling and delivering them.
- (d) Receiving payment for them.

14. Each of these stages is a necessary step in the earning of profit, and from the beginning of the first stage progress towards the achievement of the final profit objective has begun. It is clear that some part of the process of earning the profit is inherent even in the first and second stages. This is especially so where the first stage involves manufacturing, or otherwise converting goods purchased from suppliers; but the simple process of purchasing goods is itself a necessary step in earning profit, and indeed in many undertakings where conversion is not involved, the skill of persons engaged in the undertaking in selecting and acquiring goods of the right kind at the right time, and their judgment in holding goods or disposing of them according to market conditions, can make very large contributions towards the ultimate profit or loss of an enterprise.

15. On the other hand, it is to be observed that in most cases no part of the profit on trading is normally

¹ *Re Duple Motor Bodies Ltd (H.L.)* 40 A.T.C.

available to the undertaking until all the four stages have been completed, for the profit is ultimately represented by money, and that money is not ordinarily received until after the first three stages have been completed. Moreover, until then there is in many cases no certainty of an ultimate profit, for without a sale and receipt of an adequate price there will be none.

16. Once the third stage has been completed it is usually possible for the ultimate profit to be ascertained, and it is of course the normal accounting practice for the complete profit to be brought into account at that point. It has to be borne in mind, however, that the work involved in the fourth stage, the collecting and dealing with the payment for goods sold, in fact involves work and expense, and it also involves some element of risk; and the profit remains unrealized and unusable until the fourth stage has been completed. There could therefore be some support for an argument that even at the end of the third stage there is something to be said for deferring bringing the profit into account still further.

17. Thus it is not strictly possible to say that the profit arises at the end of any one stage; it is more correct to say that all stages contribute in some part towards the ultimate profit but that the contributions of each part are not capable of exact measurement. The profit is not fully earned until all the stages have been completed.

18. Notionally at least the timing of the bringing in of the profit and the system of bringing it in in one sum are not perfectly logical, but clearly there is a compelling business efficacy in it, and few indeed would be found in normal cases who would be willing to change it. It is a point upon which instinctive common sense seems to negative any contemplation of change.

The Cycle of Operations, and Accounting Dates

19. The analysis set out in the preceding paragraphs has been made with the object of simplifying as much as possible examination of the part which the adjustment of stocks plays in the ascertainment of the profit or loss of a business in a given period, for what is true in relation to one single cycle of operations will almost always be equally true in relation to many, and by the study of various separate possibilities in relation to a single cycle the consequences of each can be more readily followed.

20. If the accounts of a business could be prepared as a single document commencing with the first transaction in the business when it was set up, and ending on the date of the completion of the last transaction when the business ceased, the results reached would be definite and certain, and it seems unlikely that any of us would arrive at results differing one from another. Such accounts are in some cases in practice possible, as for example, in some terminable joint ventures, in voyage accounts, and no doubt in a number of other special cases. But on the whole such

accounts are seldom possible because usually businesses run for numbers of years, and accounts have to be prepared from year to year and period to period, while the business continues without any natural pause and while many matters are incomplete at annual accounting dates. No doubt the division of the trading accounts of a business into separate years or other periods brings up other questions of allocating items to one period or another, but in most cases by far the largest part of all such considerations centres around the determination of the best figures to be adopted in respect of stocks. Clearly, all the questions of principle which arise in relation to the amounts to be attributed to stock are, in effect, also inseparably questions of determining the period into which particular profits and losses ought to fall.

21. It is, I think, material here to notice the great difference in importance between the effect of principles selected and applied as basic general rules for the ascertainment of stock figures from year to year, and those adopted for dealing with contingencies which may or may not arise as the annual stock-takings come round. General rules adopted and applied for the ascertainment of cost, as for example, the obvious and topical one of whether any, and if so what, oncost shall be included, will affect the general level of stock figures throughout the years of trading, unless some special circumstances create an occasion for change; on the other hand rules adopted for dealing with such matters as falls in prices in the market, obsolescence, and the like have a purely temporary effect in relation to individual events and normally are no more than a question of whether particular profits and losses fall into one year or the next.

22. In the normal way, when an accounting date arrives, the allocation of profits and losses between the two periods which it separates is largely automatic and arises basically from the routine recording of transactions as they occur. Sales which have already taken place will have been invoiced and debited to customers and the goods will no longer be included in stocks, so that the corresponding profits or losses will have been brought in; and all goods which have not reached that stage will need to be included in stocks. No doubt it has always been inevitable that profit shall ordinarily be brought into account from the stage when invoicing takes place and the necessity arises for debiting to the customer the charge for the selling price (which includes the profit). To some extent practice deals with the remaining possibilities of diminution in the benefit of the sale from subsequent causes, e.g. by the system of making provisions for bad and doubtful debts, claims, etc. It is, however, exceptional in ordinary cases for any provision to be made for costs of collection of outstanding balances, except possibly in relation to debts recoverable over unusually long periods.

23. The exact moment when goods cease to form part of stock-in-trade and become the subject of the trader's right to receive payment of the selling

is one which can sometimes present its own problems and can be the subject of a separate and interesting study. I shall, however, do no more than acknowledge the existence of this question as it is, I think, outside the present discussion.

Departures from the Cost Basis

24. It follows from the general principle that no profit is brought into account until goods are sold, that the generally accepted basis for stating stocks on hand in annual accounts must be cost, and this simple statement of cause and effect needs no further notice, but it is now necessary to come to the exceptions.

Increases

25. It is possible to deal very briefly with the limited class of cases where stocks are brought in above cost and thus provide the exception to the general rule by bringing in some profit element before a sale or a contract has been completed. It can be seen from what has already been said that there is no overriding illogicality about this; it is really a question of degree and of management policy. However, there are usually strong practical objections to it in the difficulties of assessing convincing figures, the impossibility of using the accruing profit potential until it has been realized, and the need for maintenance of future revenue to meet future expenditure (which will be demonstrated more fully in the subsequent part of this paper which discusses oncost). The case where this course is most often found is that of long-term manufacturing or erection contracts, where substantial payments on account have been received during progress, sometimes but not always in excess of total expenditure to date, and where the confident expectation of an ultimate profit has become justified in the light of the progress made. There can, however, be other special cases; as an extreme example, I imagine that it would be particularly unrealistic for a gold mine to show a stock of gold at cost.

26. In such cases, however, the appropriate treatment is a matter of management discretion and is not obligatory except to the extent that the adoption of the practice in the past may make its continuance desirable in the future because of the importance of consistency in these matters.

Reasons for and methods of providing for decreases

27. In the cases where reductions from cost arise, the need for adjustment is usually much more compelling, although there remains substantial room for argument as to when the exact point is reached at which a reduction ought to be made.

28. Some of the main cases where reductions must be considered arise under the following headings:

- (a) Reduction in buying or replacement price.
- (b) Reduction in selling market prices.
- (c) Deterioration or damage or other faults in materials and goods.

- (d) Redundancy and obsolescence of materials and goods.
- (e) The failure of markets resulting from unsuitability.

29. There are several ways of measuring the reductions which ought to be made from cost and it is probable that each of these can prove the most suitable in particular cases; but before referring to any of the cases or the methods, I think that some general consideration will be useful. It is first necessary to recognize that these cases are almost entirely of the class of purely temporary circumstances to which I have referred earlier, so that any particular treatment at an accounting date will usually influence only the year to that date and the following one, and any misjudgment will quickly be corrected in the following year. Although therefore it is always desirable to arrive at the best course, for the figures involved can reach important proportions, yet in the general run of cases differences in methods adopted will be of both limited and temporary effect.

30. Since time immemorial it has been almost universal custom to bring stock into accounts 'at cost or market value, whichever is the lower', and this formula has found judicial acceptance on various occasions in income tax cases, and I do not know that any other formula has yet received judicial consideration. The active recognition of the obscurities involved in the expression 'market value' is of quite recent origin, and its implied division into two branches as 'replacement price' and 'net realizable value' indicates the general nature of the obscurity which has long existed. There is a clear distinction between these two branches and it is one which necessarily involves a selection which it seems to me cannot be achieved by logic alone.

31. This question can be explored from two aspects; that of the allocation of profits and losses to successive years, and that of the proper amount at which the stock should be stated in a balance sheet.

Periods to which profits and losses relate

32. With regard to the first aspect, a basic question which seems to me to arise is whether the disadvantage of the reduction in the stock is to be borne in the period in which the goods were acquired or a change in relation to them took place, or alternatively in the period in which they are used or sold. This needs some examination. It is clear that the question of immediate realizability of goods held by a going concern cannot be the test, for this would often require the writing down of many raw materials on hand and the virtual extinction of the value of work in progress, which would not often be realizable at anything more than scrap value. It appears to me that the reasonable way of looking at this question is to regard each year as though it were a separate adventure. If this principle is adopted it still remains necessary to establish the basis upon which each year

deals with the next, and clearly more than one set of coherent principles could be laid down. To me it seems, however, that the soundest principle to adopt is to regard the earlier year as having an obligation to protect the following year from all disadvantages arising from the course of events in the earlier year, and to regard the following year as entitled to a clean start, unprejudiced by disadvantages from the previous year, or at any rate adequately compensated for them. There are reciprocal advantages between the earlier and the subsequent year in the transferring of stocks from one year to the next, after they have been shorn of any exceptional disadvantages of kinds such as those listed above; the earlier year is relieved of its stocks without further loss and the subsequent year receives the advantages of stocks which enable it to continue the trading without interruption. If this principle is accepted the subsequent year must not be charged with stocks at a higher price than that at which they could have been acquired in the open market for this would penalize the subsequent year for the benefit of its predecessor; the previous year would be gaining something which could only be realized by taking advantage of all the work and expenses necessary if the business is to continue to trade in the subsequent year.

33. There is a possible argument against this line of reasoning: if the stock has been acquired in the earlier year for the benefit of the following year, and it depreciates, it is the following year which should bear the depreciation. Generally speaking, stocks are maintained at a level suitable for the circumstances of the business and it can reasonably be taken that stocks on hand at the end of any particular year have in the main been acquired for the benefit of the future. It is, however, more in accordance with sound accounting practice for such disadvantages to be dealt with at the earliest possible stage, and for it to be recognized that each year receives the benefit of preparations for the future from the past. In its turn it makes similar preparations for the following year itself, and bears the risk and the brunt involved in so doing. It is true that this can fall hardly on a first year of trading, but a little thought will show that either the first or the last year must take a risk of suffering in this respect, and putting off to the end of the history of an undertaking the ultimate effect of such risks is unattractive.

Determination of the amount of decreases

34. The alternatives described in the last two preceding paragraphs can fairly conveniently be associated with the alternatives of the new formula evolving 'replacement price' or 'net realizable value' as substitutes for cost where appropriate. These phrases would tend towards corresponding with what was commonly spoken of as 'buying market value' or 'selling market value' under the old formula, although clearly they are not wholly the same. In the generality of cases the main practical difference between

'replacement price' or 'net realizable value' is that the use of 'replacement price' involves making a reduction in stock figures as soon as there is any reduction in the price at which similar stock can be acquired, whereas 'net realizable value' defers the need for any reduction until the stock can no longer be sold at a profit. Thus broadly speaking, if my first principle is adopted and the earlier year is required to pass stocks to the subsequent year free from the disadvantages of falls in buying prices which have taken place between the date of purchase and the end of the year 'replacement price' would be the standard to be used. If the second principle is adopted 'net realizable value' is to be used. The Council's recommendation of 1960 supports primarily this second principle but also supports in certain circumstances the first principle, that is to say 'replacement price'. The earlier recommendation of 1945 supported only the 'net realizable value' principle, in which I personally find it difficult to concur. For the reasons I have explained, it seems to me better to provide for all disadvantages which have already arisen in the first year. I think that because the amount realized for stock in a following year depends upon the use of all the costly organization of the business in that following year, what is actually realized is something more than the actual stock which was originally acquired. It is in effect the stock plus the services of the business which will be especially required in very many cases, as for example those which involve selling in much smaller units than those in which purchases took place. To some extent this turns on the precise interpretation of the expression 'realizable value' to which I will refer again, but it seems to me that the alternative 'replacement price' provides the better basis.

The balance sheet aspect

35. Perhaps, however, the strongest factor of all in considering this question emerges from the second aspect from which it may be considered, i.e. that of the balance sheet. Reductions of the kind under consideration are directly attributable to falls in prices in the open market, and from a balance sheet point of view it seems logical to account for the consequences immediately, if realities are to be faced. Except in special cases, of which some mention follows later, it does not seem right to include goods which have been acquired and are on hand and unsold, at an amount in excess of that for which they could at the balance sheet date be acquired, for although a balance sheet is basically a document concerned with historical costs, yet so far as current assets and liabilities are concerned it is fundamentally unrealistic not to take account of current values.

Reductions from Cost - Particular Cases

36. I turn now to particular instances in the categories of reductions from cost which I list earlier.

Reduction in buying or replacement price (see paragraph 28 (a))

37. In present times, when the habit of successive wages claims followed by compromised increases has more or less established a continuing process of moderate inflation, falls in buying prices of the supplies of an undertaking are of much less frequent occurrence than they once were; but prices do not always increase without some element of fluctuation and some decreases do of course occur, so that questions of the treatment of stock where a decrease in market price has taken place still retain current significance.

38. It is by no means in all such cases that there is a clear need for a reduction from cost in the amount to be brought into account, and the establishment of firm underlying objectives such as those I have developed in the preceding paragraphs will provide considerable assistance in resolving the questions which arise. If it is accepted that such adjustments are to be made as are necessary to provide that a new year suffers no detriment from the operations of its predecessor, then for example where goods have been purchased in the old year and have been covered by a contract for the sale of the goods, whether in their original condition or as ingredients in manufactured goods, and the sale is at a price determined in the ordinary course of business and based on the original cost of the goods, clearly in such a case a reduction in replacement price has no detrimental effect in the new year, and is an irrelevant circumstance which need not be taken into account. It appears to me also that this principle can, with caution, be extended to cases where even without pre-existing contracts of sale the circumstances of the reductions and of the particular business are such that there is no reasonable prospect of the reductions causing a subsequent fall in selling price, as for example where reductions have been purely temporary and have quickly recovered, or where they relate to subsidiary materials used in manufacture, provided the amount of stock on hand is not excessive and a clear management decision not to reduce selling prices has been made. There can no doubt be other circumstances in practice where similar considerations can be applied. The question becomes one requiring considerable judgment and must turn on the facts of each particular case.

39. It is probably true to say, however, that in the majority of cases reductions in buying prices do, merely by reason of the pressure of competition, result more or less immediately in reductions in selling prices, so that the purchases in one year will usually cause a detriment to the following year so far as there are stocks on hand at the intervening accounting date which could be bought for less at the beginning of the following year. If the principle I have stated is adopted, in all such cases this detriment to the following year will be avoided in that year and will be borne in the earlier year by bringing in the stock at replacement price.

40. The alternative to this course is to continue to

bring in stock at cost until net realizable value is lower, i.e. until the stock can only be realized in the following year at a loss, after providing for all expenditure still to be incurred, and thereafter to deduct only the amount of the prospective loss. This method provides the earlier year with some relief from the detriment of falling replacement prices at the expense of the profit of the following year; it draws on the working of the following year for the benefit of the earlier year.

41. The operation of these two alternatives can be examined very effectively by taking a drastic case where replacement prices have fallen and selling prices have followed them, to an extent equivalent to the usual rate of profit, and where there is on hand at the end of a year one whole year's stock. To bring in the stock at replacement price would in such a case eliminate all profit in the first year; to bring it in at net realizable value would have the same effect in the following year. The question at large is which method is to be preferred. I personally prefer to deal with the situation in the accounts of the first year because the fundamental cause, the reduction in buying price, has occurred in that year, and it is sound practice to face a detriment as soon as it occurs. It is difficult to think that any proprietor would be happy with accounts of his business which showed a satisfactory result but left unprovided for an inherent prejudice likely to prevent the following year showing any profit.

42. The second alternative involves a strong tendency towards waiting, if possible, until there has been a sale, which of course crystallizes the position; moreover there can always be a possibility of market falls being reversed in the meantime. Against this, however, it is significant to note that the time-honoured rule of 'cost or market value' has not generally been considered to be confined to cases of actual loss; it dealt with reductions as they occurred.

43. Before I leave this point I should, I think, mention that the Inland Revenue for taxation purposes appear to take the view that in strictness no deduction is allowable until prospective selling price has fallen below cost, and in this respect interpret the old term 'market value' to mean 'selling market value'. However, in the only tax case I have been able to discover in which this point has ever been considered in the Courts, *Brigg Neumann & Co v. C.I.R.*, an excess profits duty case, reported at 12 T.C. 1191¹ the adoption of buying market price, one of a number of issues, went in favour of the taxpayer with apparently little, if any, argument.

44. It may be that the last words have not yet been said on this point. It is, however, a matter which could only very rarely justify a contest, for usually it is no more than a matter of whether tax should be paid in one year or the next.

Reduction in selling market prices (see paragraph 28 (b))

45. A reduction in selling market prices unaccompanied by a simultaneous reduction in cost will need

¹ Also at 7 A.T.C. 269.

to be taken into account as a reason for reducing stock figures below cost in only a limited number of instances. If costs remain unchanged, and a business is to continue in the future on the same lines as in the past, then in order to continue it will still need in the future to acquire the goods in which it deals. It can make no difference whether the goods are acquired before or after any particular balance sheet date and there does not seem to be any reason for making a reduction in stocks below cost in these circumstances. It does not appear to me that the capacity of the following year to earn profits or otherwise is a matter to be taken into account from the point of view of stock figures at the intervening date at all, provided that the following year is not charged with the stocks at any higher sum than that for which they could be acquired at the beginning of that year.

46. I think this must be so because, although I have in preceding paragraphs put forward the proposition that the following year should not take in stocks from the previous year at sums above replacement price, so that it should suffer no detriment from taking them, yet the provisions made by the previous year for the benefit of the following year end there, and there seems no justifiable reason for extending them to providing for losses in the subsequent year arising from the circumstances of that year. The rate of turnover, the selling prices, the expenses, and the management circumstances of the following year all belong exclusively to that year. If, taken together, they seem likely to result in a loss, it may sometimes be management policy to operate at a loss for the sake of the future. All the endeavours of management, and the changing commercial opportunities, will be in operation through the year, and the profit or loss of the year will reflect their results. There is no logical case in all this for transferring stock from one year to the next at less than the potential cost of acquiring it in the following year if the business is continuing and the stock would be acquired in any event.

47. These considerations are, however, subject to the overriding limit that it can only be in most exceptional circumstances that stocks would be acquired with a definite intention of selling them below cost, so that apart from such exceptions, stocks should never be brought into account at an amount which exceeds the ultimate selling price, or if they consist of partly manufactured goods, the due proportion of the selling price which the stage of manufacture reached represents. I would apply such a limit under the title of 'net realizable value' and would interpret this as meaning the net selling price after deducting all commissions, discounts, packing, freight and the like, less the direct cost of bringing the goods to the condition where they would be ready for sale. I find it difficult to think that 'net realizable value' should imply a deduction from selling price of any part of the expenses of the business to be incurred in the future except to the extent that the particular undertaking customarily includes oncost in the cost of partly manufactured stocks. My reason for this line

of thought lies in the fact that the general overheads of the following year are too remote, but my reasoning in this respect will be seen more fully in the next part of this paper.

48. In the revised recommendations of the Institute the expression 'net realizable value' is described as meaning in effect the selling price 'after allowing for all expenditure to be incurred on or before disposal'. I find some uncertainty in my mind of the intention of these words as to the limits of the meaning of 'all expenditure'. I am inclined to think that it is intended to include a proportion of the future running expenses including selling expenses, as well as the direct expenses referred to above; and if so, it seems to me that there is room for further discussion around this point in the future. Substance is added to these remarks by the views expressed by the Inland Revenue in the letter of the Chairman of the Board to the President of the Institute, which was published in the professional journals in May 1961. That letter and a later one amplifying one aspect of it are reproduced in Appendix 2.¹

Other cases (see paragraph 28 (c), (d) and (e))

49. The two foregoing cases deal with stocks which although subject to abnormal circumstances may still be regarded as forming part of the main stream of the business of an undertaking. They have to be considered from the viewpoint of the basic profit-earning capacity of the undertaking and their treatment has a fundamental effect on future results. Most of the other cases where special reductions arise can, I think, be regarded as those where for one reason or another stocks have become withdrawn from the main stream of the business. They are usually cases of deterioration or damage or other faults in materials and goods, and redundancy and obsolescence. There are occasional occurrences of failures in demand for saleable goods. Generally speaking such stocks cease to be held with a view to profit, and management policy is then directed to disposing of them, and converting them into cash as quickly as possible, although sometimes they may be retained in the hope that they will be of future use. In these circumstances there seems no need to do other than write the items down to a sensibly estimated sum which it can be anticipated that they will realize, subject to deductions of any prospective expenditure in preparing them for disposal. One interesting observation which may be made about these items arises in connection with goods in respect of which there has been a very limited amount of deterioration or damage, where it can be expected that they can be sold at prices less than standard selling prices but nevertheless above cost. It does not seem to me that the test of net realizable value, which would give rise to no reduction at all from cost in such cases, would meet with much approval from business

¹ Not reproduced. See *The Accountant* of May 13th, 1961 (page 609), and June 17th, 1961 (page 767).

men. There is, I think a compelling instinct to take notice of the deterioration and a reduction from cost proportionate to the prospective reduction in selling price seems to be more readily acceptable.

50. A further special case arises where manufacturers find it desirable to carry stocks of spare parts of obsolete productions for long periods and where no reliable measure of future demand can be made. In such cases from time to time new batches of spare parts have to be manufactured and the provisions against what remains on hand sometimes need to be severe. Inasmuch as such expenditure on manufacturing is sometimes completely speculative, there

can be a case for dealing with the matter by deducting the proceeds of all subsequent sales from the original expenditure involved, and once the full expenditure has been covered, carrying forward the remainder at scrap value or little more.

51. So far as concerns the measurement of the extent of the writing down required, it has to be recognized that these cases are nearly always essentially matters of judgment for the expert in the industry concerned, and the accountant is commonly unable to do more than satisfy himself that proper principles are followed.

(To be concluded.)

Weekly Notes

Changes in the Cabinet

OF the changes which Mr Macmillan has made to his Cabinet this week, two of the most significant are the appointment of a second senior Cabinet Minister at the Treasury and the appointment of Mr F. J. Erroll as President of the Board of Trade. This last appointment has been caused by the transference of Mr Maudling from the Board of Trade to be Secretary of State for the Colonies.

Mr Brooke will have the title of Chief Secretary to the Treasury and Paymaster-General. He will come under the general control of the Chancellor but he will have full authority, subject to the Cabinet, to decide on issues affecting the level of expenditure of Government departments.

The transfer of Mr Maudling from the Board of Trade seems to carry with it the possibility that the Presidency has, for the time being at least, lost some of its political power. Usually on such occasions, what another department loses the Treasury gains and since there is now an additional Treasury Minister in the Cabinet, it seems more than likely that there will be a shift in political power even further towards the Treasury. In so far as this may happen, industry loses to some extent a spokesman in Government circles against the power of Treasury officials.

Bank Rate and the Bank

THE reduction of Bank rate by half a point last week inevitably prompted speculation as to whether the end of the current credit squeeze and the beginning of the end of the 'pay pause' was in sight. The Chancellor did his best to correct such thinking at the annual bankers' banquet at the Mansion House the same day by saying that there were no grounds for believing that the cut betokened any relaxation of any part of his current policy. The simple explanation is

that the increased Bank rate had achieved its immediate objective of halting the outflow of funds from London. If continued, it would certainly have brought into London a large sum of 'hot money' which was not wanted, and the transfer of which would have embarrassed the dollar. If, however, there are still people who believe that the end of the 'squeeze' is in sight the latest *Quarterly Bulletin* from the Bank of England should rapidly disillusion them.

The circumstances which prompted the July measures including the 'little Budget' are tersely summed up in the statement that the balance of payments deteriorated from a surplus of £35 million in 1958 to a deficit of £398 million in 1960 and that the outlook for 1961 was unsatisfactory 'since any rise in exports could hardly be expected to be more than moderate'. Apart from the deterioration on current account, the *Bulletin* reports that 'a substantial net deficit on long-term capital account could be expected to continue'.

Reporting the acquisition of the \$2,000 million credit from the International Monetary Fund, the *Bulletin* gives the breakdown of the sum according to the currencies which were acquired. They include Italian lire, French and Belgian francs, Japanese yen, as well as dollars and deutschmarks. Commenting on the Basle agreement which led to the European central banks helping to offset the speculative pressure on sterling earlier this year, the authors consider that 'in practice the operation achieved its objective and is, perhaps, an example significant for the future of the power and size of the resources which can be deployed by the leading monetary authorities when, as was the case on this occasion, they are in agreement about the aim to be pursued'.

Unlike the first issues of the *Bulletin*, the latest issue reflects what can only be assumed to be the growing confidence of the authors in this experiment in so far as the comment is more forthright and opinions are not completely suppressed. Discussing the situation before the 'little Budget' the *Bulletin* notes that 'the United Kingdom continued to suffer by comparison with its competitors from the slower growth of its traditional markets and from its difficulties in holding its position in these markets'.

Looking into the future, the authors state that 'to sustain a satisfactory rate of economic growth and at the same time to restore external balance, an increase of some 10 per cent per annum in exports is required'. Such an increase will be achieved only by a 'comprehensive and aggressive export drive' which will substantially increase the proportion of the output of United Kingdom manufacturing industry diverted to exports. In the opinion of the authors of the Bank's *Bulletin* 'this would be more easily achieved if there were to be an increase in the productivity of manufacturing industry unaccompanied by an increase in costs'. So much for any economic optimism.

Stamp Duty Again

ALSO speaking at the Mansion House dinner Lord Ritchie, Chairman of the Stock Exchange, made a plea for a new approach to the controversy surrounding the payment of stamp duty on the transfer of securities. This duty has long been particularly unpopular in the City. Among other reasons for this, it is a comparatively small producer of revenue and it is an irritating obstacle for foreigners wishing to use the London Market.

Lord Ritchie chose this moment to raise the question again because of the imminent negotiations for Britain to join the European Common Market and also because of the recent conference in London of representatives of European stock exchanges. As Lord Ritchie emphasized, this stamp duty and the complications in the recovery of income tax by non-residents are bound to affect the City's position in western Europe.

On previous occasions pleas of this kind against the duty have met with no response. Now that the United Kingdom is on the verge of negotiations to join the European Economic Community its reception in official quarters may be slightly less inimical.

New Records in Industrial Life Assurance

INDUSTRIAL or 'home service' life assurance business for 1960 reached a new record according to a statement made by the chairman of the Industrial Life Offices' Association last week-end.

Premiums, collected from over ten million United Kingdom households totalled £194.1 million an increase of £9.4 million over the previous year, and the largest annual increase ever recorded. Gross investment income earned on the funds which the offices administer for their industrial branch policyholders rose by £8.5 million to £82.8 million. Net new saving resulting from industrial life assurance amounted to £85.5 million, compared with £76.6 million in 1959. Premium income in the ordinary branch also rose from £123.9 million to £132.7 million and ordinary branch funds of the industrial offices finished the year at £1,025.1 million compared with £939.3 million at the end of 1959.

The continued growth of the industrial life offices' business clearly indicates that the 'home service' system of life assurance appeals to a very wide public. Records of life assurance business have continually been broken since the war and it would seem that this trend will continue.

Finance for Industry

THE Industrial and Commercial Finance Corporation is nowadays so much a part of the City that it is easily forgotten that it was formed only fifteen years ago. Its object was to provide finance for the small- and medium-sized businesses which in the opinion of the Macmillan Committee on Finance and Industry (1931) were not catered for by the existing City institutions. A similar situation existed in Canada and at about the time the I.C.F.C. was born with the backing of the clearing banks, the Canadian Government established the Industrial Development Bank as a subsidiary of the Bank of Canada. The records of these two institutions is examined in a new study¹ and it is perhaps gratifying to one's nationalist instincts that the I.C.F.C. comes off very much better than does its Canadian counterpart, which according to the report, seems to have been hampered in its development 'from achieving the expansion in volume, diversity in investment, and the level of earnings it might have reached, had it been run on private business lines'.

Reviewing the record of the I.C.F.C., the study states that: 'Contrary to pretty general expectation the I.C.F.C. succeeded to a large extent in discharging its specific duties without becoming crippled by bad debts, capital losses and frozen investments. It more than earned its keep and gradually built up substantial reserves behind a growing volume of healthy profitable business.' These encouraging results of the Corporation's activities can be explained briefly, it is stated, in that by operating on a large scale and by lending to a large number of companies a steady flow of normal income was brought in and, as a by-product, 'gives the I.C.F.C. a fair statistical chance of backing "winners" in the form of profitable realizations, and by keeping its stake in individual cases within moderate limits, the Corporation can avoid a recurrence of numerous big losses'.

Critics have contended that the I.C.F.C. might have proved more profitable still had it taken up a larger interest in the equity of those businesses it assisted. But, as Lord Piercy pointed out in evidence to the Radcliffe Committee, the Corporation would lose much of its business if it insisted in a stake in the equity and corresponding powers of control. In practice, the Corporation has avoided taking up ordinary shares and in 1959-60 such shares reached their highest share in the Corporation's holdings at only

¹ *The Finance of Small- and Medium-sized Businesses. A Comparative Study.* Prepared by C.D. International (United Kingdom Research Office) Ltd, 24 Chancery Lane, London WC2, and C.D. Planning Institute Ltd, Winnipeg, Canada.

10 per cent. The object of the I.C.F.C. – as explained in evidence to the Radcliffe Committee – has been to provide funds 'where there are reasonable standards of competence and the purposes for which capital is required are reasonable. It does not aim at exercising any influence on the management; is not motivated by the prospects of a future public issue, nor of making combinations of one company with another'. These principles appear to have stood the Corporation in good stead.

O.E.C.D. Replaces O.E.E.C.

THE Organization for Economic Co-operation and Development began its official existence at the beginning of this month when it took the place of the thirteen-year-old Organization for European Economic Co-operation. The Council of the new Organization has now held its first meeting, which was attended by the permanent delegations of all the twenty member countries.¹

The change of title from O.E.E.C. to O.E.C.D. reflects the entry of two non-European countries – the United States and Canada – to full membership, and emphasizes the fact that in future the accent will be put on development aid in the Organization's work. This reconstitution marks the changes that have taken place in the world economic situation since the former Organization was set up on April 16th, 1948, to administer Marshall Aid and to restore the European economy on a co-operative basis.

During the late fifties the acquirement of independence by former colonies of European countries had been going forward at increasing speed, and by the end of 1960 some thirty-five newly independent States were in existence. Sources of economic aid were manifold, both in the form of Government assistance and that of private investment, but it was apparent that if the full benefit was to be obtained by the developing countries from the industrialized countries of the Western world, some form of co-ordinated effort was a necessity. As a result, the decision was taken to remodel the O.E.E.C. on lines which would enable it to undertake this task of co-ordination.

More Thoughts on the Common Market

IF the United Kingdom joins the Common Market, British business men will be presented with important new opportunities and a host of new problems. In order to show what precisely the Common Market is, what changes it is bringing about in its six member countries and what effect membership will have on the British and Commonwealth economies, the National Union of Manufacturers has sponsored a guide to the economic problems, which has been prepared by *The Economist Intelligence Unit*.

¹ Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

The well-known facts are all there: the main provisions of the Rome Treaty, progress so far in implementing the steps to economic unity and the supposed effects of these steps on increasing industrial production and United States investment in the Six. Once the guide leaves these landmarks behind, however, the road becomes very dark indeed. It may well be in Britain's best interests to give whole-hearted support to the principles of the Rome Treaty, but it would be necessary to align British tariffs within, perhaps, little more than a year. The dismantling of continental tariffs against the United Kingdom would eventually benefit more than a quarter of total British exports, but this will not by itself ensure a startling rise in exports. The iron and steel industry may do better, but the electrical engineering industry may do worse. Fertilizers are in the weakest position and Germany is in too strong a position in this field to be withstood. The prospect for British agriculture is unclear, but then, the Six have not yet settled a common policy on their own agricultural problems.

We cannot help feeling, however, that business men for whom this guide has been prepared would have fared better if it had contained more fact and less opinion. Something, in fact, more on the lines of the similar booklet issued a couple of years ago by the Westminster Chamber of Commerce entitled *The Outer Seven – What it Will Mean to You* and which, incidentally, contained an excellent list of suggested further reading on both the Common Market and EFTA.

Action Against the Institute Fails

IN the High Court last Wednesday, Mr Justice Wilberforce dismissed with costs the application by Mr Anthony Henry Lloyd, F.C.A., for an injunction to restrain the Council or Disciplinary Committee of The Institute of Chartered Accountants in England and Wales from hearing or otherwise determining whether Mr Lloyd, a member of the Institute, had acted discredibly under the rules of its Supplemental Royal Charter of 1948.

A report of the proceedings appears elsewhere in this issue.

More Charities to be Registered

IN a Weekly Note on June 3rd last, reference was made to the first Order made by the Home Secretary and the Minister of Education under subsection (10) of Section 4 of the Charities Act, 1960, requiring the registration of charities in the administrative counties of Bedford and Surrey and the County Borough of Croydon. Now that experience of the mechanics of registration has been acquired in dealing with cases in those areas, a second Order (The Charities (Registration) (Commencement No. 2) Order, 1961 (S.I. No. 1867 of 1961)) has been made in respect of a very much larger area, no less than seventeen administrative counties and thirteen county boroughs in England being included in it. The county boroughs are all within geographical

counties the other parts of which are within the Order. Charities, the work of which is carried on for the benefit wholly or mainly of any of the administrative units in question, or any parts or parts thereof, are registrable on December 22nd next, unless Section 4 already applies to them, as it does where the charity was founded on or after January 1st of this year, in which case it was immediately registrable, provided that it did not fall within the excepted classes referred to in Section 4 (4).

It is understood that, in spite of the wide publicity given to the duty to register, trustees of charities in Bedfordshire and Surrey have been somewhat slow in making the requisite application under subsection (6) of Section 4. Doubtless the need to register will in course of time be brought home to those who fail to apply, by the refusal of the Revenue authorities and, where land is occupied for the purposes of the charity, the rating authorities to allow that relief from tax and rates to which charities are entitled.

This is My Life . . .

by An Industrious Accountant

CHAPTER 93

THE last rise in the bank interest rate hit firms with overdrafts hard, and our attention has been focused on our liquid cash position. All our accounts department's energies have been bent on pressing our customers to pay their debts earlier, a task somewhat handicapped by the said customers' determination to withhold payment till the last possible moment, their own liquidity naturally being of prime importance in their eyes.

So Prinny and I evolved a bright idea. We sent out Mike, our chief ledger clerk, with a car to tour around and call on a selected list of big customers with slow payments. Easy informality was to be his approach, with a touch of Shylock's knife in the velvet glove, said Prinny, mixing his metaphors cheerfully. It would be good training for Mike as well as good customer-relationship, so we'd give the idea a trial run for a week.

Mike is a hard worker despite an occasional playboy tendency; his first two reports showed good cash collections. The third arrived on Thursday afternoon. Prinny gasped as he read it over my shoulder. The writing tailed off half-way down the page into an illegible scrawl; a yellowish smear furrowed the paper. 'Whisky,' said Prinny profoundly, with the air of Sherlock Holmes analysing bloodstains, 'beer shows up darker.' The duplicate page bore purple writing where someone had unwittingly scrawled over carbon-paper: 'Man o' War, 10s e.w., Panaslipper £2 win . . .' there was a long tally. Clearly, on Wednesday evening Mike's labours had been interrupted by revels to no mean extent; he must have posted his report while pink elephants obscured his vision.

Prinny acted with the lightning decision of his favourite hero, Nelson. 'Mike's due, per schedule, at the Red Lion roadhouse tonight. We'll hit the road at six. . . . I'll drive . . . we'll confront him with this paper and pulverize him for gambling; . . . I wonder, did he get a good tip for Panaslipper?'

So by 7 p.m. we were racing west in Prinny's sleek roadster like avenging furies, 1961 edition, and the Red Lion was barely ten miles away. The only flaw was that an enormous double pantechicon, two petrol lorries and three touring caravans were in line ahead, and the setting sun was dazzling us. We just couldn't pass them; the smoke and dust were choking us; Prinny was fuming.

He swung suddenly left at a side-road and we flew down between green hedges casting shadows in the dying day, our speed restored. True, we went wrong once at a Y-fork later, but Prinny had an unerring instinct for direction; he took another side-road which brought us due west again; the miles rolled by smoothly on his speedometer.

When about fifteen of them had rolled by the driver's lips began to purse up in annoyance. The road had narrowed and changed imperceptibly; the tarmac had deteriorated and a grassy line was apparent down its centre; somehow we were now heading south; our speed had dwindled. We changed gear noisily as we curved gently eastward; suddenly the way ahead broadened into a sort of trackless common dotted with furze bushes. We stopped. We didn't have much option.

Twilight fell gently and the bushes became grey blurs; our faces fell also; the wide detour we had attempted ended in a soft black patch of deep mud. I pushed first; then we both pushed. We sacrificed two rugs in a vain effort to make the wheels grip; we almost sacrificed our friendship when Prinny urged me to collect branches for the same purpose and in the darkness I fell into a thorn bush. The wind whistled cold and eerie. After sounding the horn fruitlessly for some time, we set off in strained silence to walk. The torch battery failed soon. Hoisting Prinny to see the signpost by the gleam of his lighter almost ruptured my back; letting him down he wrenched his ankle.

That was just before it started to rain heavily.

Three cars ignored our beseeching waves before the fourth stopped, with Mike's shout of surprised recognition ringing in our ears. The welcome rug and cushions, the blazing fire in the Red Lion's lounge, the mixed grill . . . somehow they changed our outlook. We never mentioned the third report or the reason for our trip; Mike still thinks our being there was a coincidence. At least, we hope so.

Finance and Commerce

Hide & Co

THIS week's reprint features the accounts of Hide & Co Ltd, a name that has been, and still is, much in the news. It has been the subject of a Board of Trade inspection; but since June 1959, Mr C. L. Walker, F.C.A., has been at the helm.

In the report with the accounts for the year to January 31st, 1961, Mr Walker puts his finger, with a dissection of profits to show their sources, on the aspects of the company's department store business that are causing trouble. He opens his review with the unfortunate fact that the accounts show a group loss, before taxation, of £9,188. It will help stockholders to assess the true position, he says, if they study the figures given in the dissection of group profits which forms part of this week's reprint.

Says Mr Walker: 'The analysis of these figures is simple.' He points out that since his appointment as chairman, the profits of the stores which the company then owned have continued to improve, but the results of Barnett-Hutton had continued the decline which started in 1957. The Barnett-Hutton store will be familiar to readers who know Oxford Street, in the West End of London.

The new stores, says Mr Walker, have proved to be a 'most expensive venture', and partly as a result of this, the administration costs and interest charges have increased out of all proportion.

Wrong Policy

Mr Walker reminds stockholders of the warning he gave last year that the results to January 1961 would be affected by what had happened in 1959; they would remember that for the half-year to July 1960, there was a net loss of £41,000. But the actual results for the year, says Mr Walker, are 'much worse than I forecast'.

He points out, however, that all the matters for which they were now paying – the wrong policy for Barnett-Hutton, the purchase of unsuitable new stores, and the increase in overheads – happened in 1959 and early 1960, prior to the changes in management to which he referred last year; nevertheless, Mr Walker concludes, 'as chairman during this period I accept full responsibility for supporting a mistaken policy'.

One event of the past is now being reversed. In April 1960, when Mr I. J. Raber was managing director, the company bought the business of Clifton Fashions, including the head lease of the premises occupied by it, for £125,000 plus stock at

valuation. The business was 'quite different from our normal trading' and after Mr Raber left, the new management was anxious to dispose of it. It was sold to Mr Raber 'as he was prepared to pay a better price than we could get elsewhere'. The price obtained was £20,000 plus stock at valuation, a sub-lease being granted on terms showing a profit rental to Hide & Co, of £6,000 a year for the thirty-four-year residue of the head lease. The head lease has been included in the balance sheet at its subsequent professional valuation and the £56,083 resulting deficiency on the transaction has been written off against the 'Realized capital profit reserve'.

The Plan

Mr Walker emphasizes that the matters to which he refers in his examination of profits still apply and profits for the year to January 31st, 1962, 'will not be satisfactory'. It has been decided to sell the Goorwitch Group and the Oxford Street store. Both, observes Mr Walker, could eventually be turned into profitable units but in present circumstances, money and energy could be better employed elsewhere.

The basic plan is to go halves with a property company – Bernard Sunley Investment Trust – in forming a joint company to take over Hide properties which have a development potential and to link with Tesco Stores in supermarket development. Under the property arrangements, the price paid for properties will be current market value, payable over a period but carrying interest. Hide & Co will not have to find any finance for property development and each development will, if desired, include a modern store for Hide.

The deal will enable repayment of the Prudential debenture with a saving of £66,000 a year interest; it will give the company several modern stores; and the company, without cost to itself, will have a 50 per cent interest in the profit resulting from the development of the sites by experts.

Peace

With Hide & Co, however, nothing seems to be plain sailing. A self-styled stockholders' committee lead by Mr Neill Ross, a Scottish lawyer, opposed the board's intended property and supermarket moves, advocated board changes and, in particular, proposed Sir Andrew Murray as chairman of a new board.

But shareholders attending the annual meeting on September 22nd found that agreement had earlier been reached between the board and Mr Ross with the result that Sir Andrew had been co-opted to the board. None of the committee's proposals were put to the meeting and for the time being all is peace within.

Mr Walker stated that half-year accounts to July showed a net loss of £55,000 and added 'for the year to January 31st, 1962, it will be a miracle if we do not show a loss'. With 1961-62 out of the way, however, he looked for steady improvement.

CONSOLIDATED BALANCE SHEET 31st JANUARY, 1961

[illegible]

HIDE & CO. LIMITED AND SUBSIDIARY COMPANIES

NOTES ON ACCOUNTS

1. Directors' Emoluments comprise:—
- | | 1960/61 | 1959/60 |
|---|----------------|----------------|
| Management Salaries and Commissions | £17,644 | £15,645 |
| Directors' Fees (less amounts waived) | 394 | 2,255 |
| Pension Fund Contributions | 1,637 | 3,800 |
| | <u>19,675</u> | <u>21,700</u> |
| Pension to past Director and Widow of past Director | 1,950 | 1,638 |
| | <u>£21,625</u> | <u>£23,338</u> |
2. Save as stated in Note 3, the Freehold and Leasehold Premises are shown at the values placed upon them by professional valuers in October—November, 1959, (after deducting the book value of fixtures included elsewhere in the Balance Sheet) together with additions since at cost, less subsequent amortisation. The Revaluation Reserve has been debited with amortisation on the surplus arising from the revaluation referred to above, all other amortisation having been provided in the Profit and Loss account. No depreciation has been provided in respect of Freeholds.
- The Balance Sheet of the Holding Company gives effect to certain inter-group transfers of premises although the legal formalities were not completed until after that date.
3. On 11th April, 1960, the Company acquired the assets and undertaking of a fashion business—including the head lease of the premises occupied by it—for a total consideration of £125,000 plus stock at valuation. On 21st November, the whole of the assets apart from the head lease were sold to a company controlled by Mr. J. Raber—a former Director of the Company—for £20,000 plus stock at valuation, a sub-lease being granted to that company on terms which show a profit rental to Hide & Co. Ltd. of £6,000 per annum for the residue of the period of the head lease, viz., 34 years. The head lease has been included in the Balance Sheet at its subsequent professional valuation, and the resulting deficiency on the transaction, amounting to £56,083, has been written off against the Realised Capital Profits Reserve (see Note 8).
4. There are arrears of dividend on the preference shares of a subsidiary company for the period from 1st July, 1960, to 31st December, 1960, amounting to £1,388 gross (including £45 due to the Holding Company) for which no provision has been made.
5. The movements on Ordinary Stock Account are as follows:—
- | | £ |
|---|-----------------|
| Balance at 1st February, 1960 | 714,447 |
| Add: Issued as consideration for new acquisitions | 44,150 |
| | <u>£758,597</u> |
| Per Balance Sheet | <u>£758,597</u> |
6. The movements on Share Premium Account are as follows:—
- | | £ | £ |
|--|--------|-----------------|
| Balance at 1st February, 1960 | | 642,712 |
| Add: Premiums on shares issued as consideration for new acquisitions | | 194,440 |
| | | <u>837,152</u> |
| Less: Discount on Mortgage Debenture Stock | 11,000 | |
| Stamp Duty and costs of Debenture issue | 18,840 | |
| Balance of cost on issue of shares under 1960 capital re-organisation scheme | 10,231 | |
| | | <u>40,071</u> |
| Per Balance Sheet | | <u>£797,081</u> |
7. The movements on Revaluation Reserve are as follows:—
- | | £ | £ |
|---|--------|-------------------|
| Balance at 1st February, 1960 | | 1,405,755 |
| Add: Sundry credits | | 837 |
| | | <u>1,406,592</u> |
| Less: Proportion of above balance attributable to properties sold during the year | 82,406 | |
| Amortisation on revaluation surplus (see Note 2) | 47,367 | |
| | | <u>129,773</u> |
| Per Balance Sheet | | <u>£1,276,819</u> |
8. Realised Capital Profits Reserve comprises:
- | | Holding Company | Group |
|--|-----------------|----------------|
| | £ | £ |
| Net Profit on sales of properties during the year (including transfer of £82,406 as shown in Note 7) | 97,124 | 117,321 |
| Less: Amount written off Unquoted Investment | 12,273 | |
| Amount written off on purchase and sale of business (see Note 3) | 56,083 | |
| | <u>68,356</u> | <u>68,356</u> |
| Per Balance Sheet | <u>£28,768</u> | <u>£48,965</u> |
9. The Tax Equalisation Account is held for the purpose of equalising tax charges in respect of depreciation and replacements.
10. In the opinion of the Directors the realisable value of the unquoted investments is not less than their book value after writing off the sum of £12,273 referred to in Note 8.
11. (a) Commitments for Capital Expenditure not included in the Balance Sheets are estimated by the Directors at £59,000, of which £2,250 relates to the Holding Company.
- (b) The claims for £868,000 and £233,000 made by Messrs. L. P. and S. N. Jackson referred to in Note 11 (b) on last year's accounts are still outstanding. The Directors consider that no provision need be made in respect of these claims, and counter-claims have been formulated.
- Apart from the above the Directors are not aware of any Capital Commitments or Contingent Liabilities not included in the Balance Sheets.

CITY NOTES

A TWENTY-FOUR hour burst of enthusiasm was all that the equity market could muster following the half-point reduction in Bank rate. Hopes have quickly fallen foul of the facts of mainly discouraging company news, an uneasy labour situation, the absence of any real improvement on the international political front and the broad admission that the Bank-rate reduction was in essence a technicality.

For the gilt-edged market, however, the Bank-rate reduction has cemented in the higher level of prices and has induced a further rise. At the same time, the L.C.C. has been obliged to float a £10 million cash and conversion operation in a 6½ per cent stock offered at three and a half points discount.

Money undoubtedly remains tight and the tying up of institutional, and particularly insurance money in property financing is one pertinent factor in the long-term money situation.

Under such conditions there is little early prospect of a return to institutional buying of equities and, without such support, the market seems likely to ease back further.

RATES AND PRICES

Closing prices, Wednesday, October 11th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6½%

Treasury Bills

Aug. 4	£6 14s 3.33d%	Sept. 8	£6 12s 10.81d%
Aug. 11	£6 14s 8.51d%	Sept. 15	£6 11s 10.99d%
Aug. 18	£6 14s 1.83d%	Sept. 22	£6 10s 6.51d%
Aug. 25	£6 14s 0.12d%	Sept. 29	£6 11s 0.48d%
Sept. 1	£6 14s 0.50d%	Oct. 6	£6 2s 5.80d%

Money Rates

Day to day	4½-6%	Bank Bills	
7 days	5-5½%	2 months	6½-6¾%
Fine Trade Bills		3 months	6½-6¾%
3 months	7½-8½%	4 months	6½-6¾%
4 months	7½-8½%	6 months	6½-6¾%
6 months	7½-8½%		

Foreign Exchanges

New York	2.81½-18	Frankfurt	11.24½-7
Montreal	2.89½-90½	Milan	17.6½-7½
Amsterdam	10.14½-15	Oslo	20.02½-3
Brussels	14.01½-4	Paris	13.83½-8
Copenhagen	19.38½-4	Zürich	12.17½-8

Gilt-edged

Consols 4%	59½	Funding 3% 59-69	80½
Consols 2½%	38½	Savings 3% 60-70	77½
Conversion 5½% 1974	91½	Savings 3% 65-75	69½
Conversion 5% 1971	90½	Savings 2½% 64-67	83½
Conversion 3½% 1969	83½	Treasury 5½% 2008-12	82½
Conversion 3½%	52½	Treasury 5% 86-89	79½
Exchequer 5½% 1966	97½	Treasury 3½% 77-80	68½
Funding 5½% 82-84	90½	Treasury 3½% 79-81	67½
Funding 4% 60-90	86½	Treasury 2½%	38
Funding 3½% 99-04	56½	Victory 4%	93½
Funding 3% 66-68	82½	War Loan 3½%	53½

LAW REPORT

HIGH COURT OF JUSTICE

(Chancery Division)

IS BIAS LIKELY?

Lloyd v. The Institute of Chartered Accountants in England and Wales

Before MR JUSTICE WILBERFORCE

[Tuesday, October 10th]

His lordship began the hearing of a motion by Mr Anthony Henry Lloyd, of Stanley Park Road, Carshalton Beeches, Surrey, for an injunction restraining the Institute by its Disciplinary Committee or Council from hearing or otherwise determining the question whether Mr Lloyd, who is a member of the Institute, had acted discredibly under the rules of the Institute's Supplemental Royal Charter of 1948.

Mr C. A. Settle, Q.C., and Mr Kevin Winstain appeared for Mr Lloyd; Mr Roger Parker, Q.C., and Mr Raymond Walton appeared for the Institute.

Mr Settle said that Mr Lloyd was a member of the Institute. He was employed by a firm of business experts called George S. May International Co G.B. He took that employment in June 1959. In July 1959, he made a return to the Institute indicating that he was so employed. The May organization advertised its services, and it was because Mr Lloyd was employed by that organization that it was alleged that he was guilty of professional misconduct. Mr Lloyd alleged that the members of the Council of the Institute and of the Disciplinary Committee had prejudged the issue. Mr Lloyd did not seek to prevent the matter from being decided, but said that the only available tribunal was the High Court.

Mr Lloyd had been informed on August 22nd, 1961, that a complaint had been preferred against him by the Investigation Committee. The complaint alleged that, as a fellow of the Institute, Mr Lloyd was guilty of acts or defaults discreditable to a member of the Institute, in that he was employed by an organization which, in its business as consultants or advisers in management, costing and methods of business organization and administration, offered its services by advertising.

A statement authorized by the Council of the Institute was published in *Accountancy* and in *The Accountant* in November 1960, stating that members rendered themselves liable to disciplinary action if they accepted employment with organizations which advertised their services as consultants or advisers in management, costing methods, business organization and methods.

On December 15th, 1960, the Secretary of the Institute sent a letter to members advising them not to recommend the May organization to their clients and stating that for the reason that the May organization advertised its services a member would render himself liable to disciplinary action if he were to take employment with it. The May organization had commenced a libel action against the Institute.

These two circulars amounted to a decision of the Council that any member in the employment of the May organization had rendered himself liable to

disciplinary action. These actions of the Institute were such that it had conducted itself so to lead a reasonable man to suspect that it might have a bias in adjudicating whether his employment amounted to misconduct.

Mr Parker said that the only question before the Court was that of bias. There was no suggestion of bias by pecuniary interest or by way of the committee also being the prosecutors. The test was whether there was a real likelihood of bias. Suspicion of bias was not enough.

It was the duty of the Council that if it felt that things were going on that might render its members liable to have action taken against them to say so, so that the members should be aware of the position. The statement published in November 1960, was a statement by way of guidance and was not in any sense a ruling. The letter of December 15th, 1960, fell into the same category. It was a statement warning members that by taking employment in such a company they were at risk, and that when they informed the Secretary of the Institute that they had taken up employment with the May organization the Secretary would, under the by-laws of the Institute, be bound to take action, because facts had been drawn to his attention indicating that a member had rendered himself liable to exclusion under the rules of the Institute. The letter merely meant that if a member took employment with the May organiza-

tion he might find the disciplinary procedure put into action against him.

The hearing was adjourned.

Solicitors: Messrs Potel & Co; Messrs Linklaters & Paines.

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Wednesday, October 11th

Dismissing the application with costs, Mr Justice Wilberforce said that in their 1947 statement and that published in November 1960, and their circular letter of December 1960, the Council had only given guidance by reminding members that in those circumstances the disciplinary machinery of the Institute would be involved. It seemed that the Council was doing little more than its duty in warning members in this way.

His lordship took the view that the Council was not in any way taking up a position on the merits of the dispute which amounted in any way to pre-judgment of the issue.

He therefore concluded that he should leave the Disciplinary Committee, the tribunal which the parties had contractually accepted, to act.

Business Computer Symposium

FURTHER SELECTION OF PAPERS

LAST week we reported the opening sessions of the Business Computer Symposium at Olympia, London, and summarized a selection of papers presented. We now conclude the report with summaries of papers of particular interest to the profession which were presented at later sessions.

SURVEY OF COMPUTER SERVICE BUREAUX

by Dudley W. Hooper, M.A., F.C.A., President, The British Computer Society; Chief Organizing Accountant, National Coal Board.

In his paper, Mr Hooper dealt with computer service bureaux which process work for customers on a 'pay-as-you-go' basis, and offer data processing facilities for the user with small or occasional jobs.

A computer service bureau of the type considered by Mr Hooper usually contains two or more computers, not necessarily of the same type, and a comprehensive range of peripheral and ancillary equipment. Depending on the type of computer, this peripheral and ancillary equipment is based primarily on either punched cards or paper tape, although the longer established bureaux have now installed equipment for handling both types of input media, so that the user may use whichever is more convenient for him to prepare.

Most service bureaux are currently operating basically on a single shift. Even so, it is of interest, said Mr Hooper, that at the present time in the United Kingdom a total of some 300 computer/hours is run by service bureaux each working day, about half of

which is on 'hired time' to outside users on a service basis.

Mr Hooper went on to show the range of work being carried out under the following main headings:

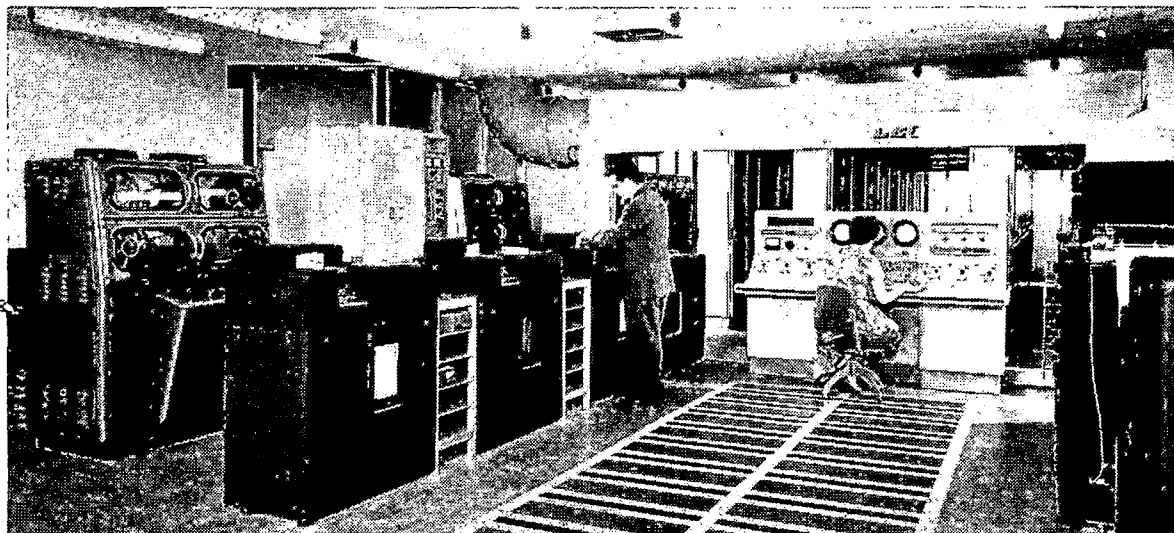
1. The amount of computer time devoted to work for the company running a bureau, to programme testing for customers, to customer training, to demonstration and other work, and to true operational service work for customers.

2. The nature and variety of the work tackled, the size of jobs and the variety of types of user.

Referring to programming, Mr Hooper said that while a full programming service was available to customers at all bureaux, most preferred the user to write and develop his own programmes and in more than one case it was stated company policy, on the grounds of both efficiency and economy. Bureaux generally, he said, would like to see, in time, their programming activities restricted to aid and advice. This should not deter any potential customer, however, from considering bureau service as he could, if he wished, leave the complete job to the bureau after stating his needs and providing the raw data.

In the majority of bureaux only about half the programmes were being written by customers at the present time. There were signs, however, of increasing use of bureaux on an 'open shop' basis, the user writing his own programmes and handling the complete job himself, the bureau providing only the equipment.

As regards computer operation, Mr Hooper stated that while most bureaux preferred their own staff to



The Leo IIc computer at the Leo Service Centre in London. On the left is the input equipment; in the centre foreground, the operator's console and behind it the arithmetical units; and partly visible on the right is the output printing equipment.

operate the computer, some encouraged the user to run his own programmes, with only a supervisor standing by. The practice varied widely, although the trend would seem, as with programming, towards allowing the customer complete use of the service bureau by his own staff during the time for which he had hired the facilities.

Charges were usually based on computer operating time, the basic charge being varied according to the configuration of the computer and the on-line ancillary equipment required for the particular job. The average hire charge for a computer with reasonable on-line facilities for the run-of-the-mill business application was between £20 and £45 per hour. If the customer did not require the whole-time services of a computer operator, the charge tended to be towards the lower figure. For regular jobs (such as a weekly payroll) a contract charge might be agreed on a long-term basis.

Programming was usually charged extra, of the order of £2 per hour. Data preparation, such as tape punching was also charged for, to the order of £1 to £1 10s an hour, or at a rate according to the number of characters. Additional charges might also be made for supplementary off-line facilities, such as line printing.

Dealing with the current trend of service work, he said that the more general use of a bureau at the present time seemed to be twofold – firstly, by organizations who were using a bureau as a first step towards developing their own computer techniques and, secondly, by the true small user who was applying a computer solution to a particular problem not easily solved by more conventional methods.

On the first day of the symposium a number of comparisons were made between the position three years ago and the position today. As regards computer service bureaux, said Mr Hooper, the progress in three years was shown by the fact that the number of bureaux had increased by about 50 per cent, the number of computers operated had nearly doubled, and the amount of work being done on a service basis for customers had more than trebled.

THE FULLY INTEGRATED INSURANCE OFFICE

by F. C. Knight, Commercial Union Assurance
Co Ltd

A computer installation nearing completion at Exeter will shortly tackle a job believed to be the biggest ever undertaken in one operation. In his paper, Mr Knight described the plans of the Commercial Union Assurance Co for using the installation.

The system design had been settled, he said, and sundry parts of the complete process had been put to trial. The fully-integrated operation was due to commence in January 1962. So far as is known, he added, a project of this magnitude and complexity had never before been attempted 'in one go'. Every year service is provided to some five million policyholders, involving the issue of about six million sets of renewal documents, payment of about half a million claims, and issue of over half a million new policies.

The general picture, Mr Knight said, was one of the handling of a vast number of individual transactions, coupled with the need for a high degree of accuracy and promptitude. A personal service had to be provided – with the special needs of individuals always to be catered for – and unavoidably a wide variety of different forms of policy used in the process.

Dealing with the principles of the new computer system, Mr Knight said:

'Rule of thumb decisions should be made by the computer wherever possible. When decisions were called for outside this scope, the computer should initiate the reference and supply the data to enable the decision to be taken with the minimum of external aid. Management to be by exception rather than by mass inspection.'

Analysis of the problem, he said, had resulted in a decision to set up a communication system linking all the data originating centres by wire. Data would be prepared at each branch (there are more than one hundred) or department (every class of business in fourteen companies) by electric typewriter with paper

tape as a by-product, and transmitted daily over the network.

At first sight this seems costly, he stated, but there were many counter advantages. For example:

- (1) A single set of key taps suffices. If documents were forwarded to the computer centre they would have to be passed through punch machines there after the initial preparation at the branch.
- (2) Accuracy of data is greatly improved. There is factual proof of this after trial runs which have been operating for the past year.
- (3) The improvement in the speed with which the information reaches the machine means less queries to be expensively investigated.

RECORDING AND CONTROLLING PRODUCTION STOCKS

by D. O. Bell, Standard-Triumph International Ltd
A tally card measuring about seven inches by four inches specifying every variation in detail necessary for the production of a car to a customer's particular requirements, and guiding its accurate assembly was now being produced by a computer, said Mr Bell.

When a production programme is established some weeks in advance of actual production, a separate document, called a tally, is created for every car which it is intended to build. The tally specifies a car in every detail for its accurate assembly and acts as a works docket.

As bodyshells enter the assembly line a 'build programme' is produced. This document provides information for stores personnel and certain sub-assembly workers, who must ensure that the appropriate components or assemblies arrive at the track in the appropriate sequence to meet the cars requiring them.

Until the introduction of a computer for production stock control and accounting, a punched-card system had been used. 'The main failure with this system', said Mr Bell, 'was the lack of integration; because of this, different basic records, which ought to have contained the same information, contradicted one another.' A further very noticeable example was the reporting of excess stocks; while another weakness was the bias of all punched-card procedures to accounting requirements.

Using the computer had, however, ended these faults, and in one example of the difference in speed with the old and new systems Mr Bell referred to the breakdown of production. This had once taken several days to complete, but was now done in one and a quarter hours after the last car had entered the assembly line.

'After the first three months it is evident that the computer installation is proving its worth,' said Mr Bell. 'The speed at which results are produced has been of benefit from the start. The integration has revealed innumerable incompatibilities and errors in records which would not have been revealed by the old system.'

'The first clerical savings have already been established. During the coming months it is apparent that the rapid reports issued for exceptional stock positions will not only be useful instruments of stock control but will, as planned, enable stock figures to be maintained accurately.'

THE PLACE OF THE PROGRAMMER

by Dr Stanley Gill, Ferranti Ltd

Already some £10 million has been spent in the United Kingdom on programming, and at least \$2,000 million in the U.S.A., stated Dr Stanley Gill in his review of

the programmer's work in instructing a computer. Even a single programme, he said, could constitute a considerable investment.

At one end of the range, programmers were working in close association with computer designers; at the other, they must be familiar with the practical needs of the industry or business which they are serving, so that they can arrive at job specifications that make the best use of the computer, and can supply descriptions intelligible to the local users.

When a system was designed to accept a programme, said Dr Gill, it was common to refer to the rules that governed the writing of the programme as a 'language'. This had much in common with everyday languages, but there were differences: it must be perfectly precise, and yet be able to convey involved ideas without great verbiage. At present many different programming languages were being invented for various applications; some looked rather like English, while others were at first sight almost incomprehensible.

At present, he said, programmers were very much preoccupied with this question of programming languages, and a great deal of effort went into the specification of each new language and the writing of each new compiler. In due course, however, all this would take its place as one of the facets of programming, important but nevertheless incidental. Some languages of general utility would become standard, and the introduction of special languages for special purposes would be a comparatively routine affair.

In addition, he said, new systems were now being developed to allow operations on more varied kinds of objects than before. The first computers operated directly on numbers, of one or two standard lengths, with the decimal point in a fixed position. All other items of information, such as letters of the alphabet, to had be represented in terms of numbers; operations on them involved roundabout and tedious series of the basic arithmetical operations. Soon, systems became available that allowed the programmer to call for operations to be performed on alphabetical information as such, in character-strings of various lengths, and also on numbers represented in other forms.

In the last few years there had been constructed several systems called list processors, that operated on lists of items, each item being itself possibly a list of other items, each of which might be another list, and so on. Some of the things now being handled by list processors, said Dr Gill, varied tremendously and unpredictably in size, and this raised acutely another kind of storage allocation problem, that of arranging such things in the store without overlapping and without leaving enormous gaps.

Just as the logical form of the items of information handled within a computing system is becoming more diverse, so is their significance in the outside world. Originally computers handled only numbers, and these are still their bread and butter, although they have to deal with an ever-widening field of applications. The numbers may in fact be salaries, stresses in frameworks, inventory totals, neutron flows, or aircraft positions. Now computers are also frequently handling strings of alphabetical characters which may be names and addresses, part descriptions, computer programmes, or even (mainly in the future) plain language messages such as weather reports to be sorted, coded or translated into another language. It is likely that one day the bulk of computer work will be non-numerical.

THE INSTITUTE OF CHARTERED
ACCOUNTANTS IN ENGLAND AND WALES
SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, October 4th, 1961, at the Hall of the Institute, Moorgate Place, London EC2, there were present:

Mr P. F. Granger, President, in the Chair; Mr P. F. Granger, Vice-President; Messrs J. F. Allan, E. Baldry, O.B.E., W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., G. T. E. Chamberlain, D. A. Clarke, J. Clayton, C. Croxton-Smith, W. G. Densem, S. Dixon, W. W. Fea, Sir Harold Gillett, Bt., M.C., Messrs J. Godfrey, G. G. G. Goult, L. C. Hawkins, J. S. Heaton, D. V. House, J. A. Jackson, H. O. Johnson, H. L. Layton, R. B. Leech, M.B.E., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., S. J. Pears, C. U. Peat, M.C., L. W. Robson, Sir Thomas Robson, M.B.E., Messrs J. D. Russell, K. G. Shuttleworth, D. Steele, C. M. Strachan, O.B.E., J. E. Talbot, A. H. Walton, V. Walton, F. J. Weeks, M. Wheatley Jones, E. F. G. Whinney, J. C. Montgomery Williams, R. P. Winter, C.B.E., M.C., E. K. Wright and Sir Richard Yeabsley, C.B.E.

Resignation from the Council

The Council received with much regret the resignation of Mr C. M. Strachan, O.B.E., F.C.A., Hull, from his membership of the Council. Mr Strachan had been a member of the Council since 1949. He had been Vice-Chairman of the Parliamentary and Law Committee since 1959 and Chairman of the District Societies Committee from 1956 to 1959.

Chairmen and Vice-Chairmen of Committees

The Secretary reported the following further appointments of chairmen and vice-chairmen of committees:

Examination Committee

Chairman: Mr W. G. Densem.
Vice-Chairman: Mr J. A. Jackson.

Parliamentary and Law Committee

Vice-Chairman: Mr W. E. Parker.

World Bank

The Council received a report from the President on his attendance as a representative of the Institute at the annual meetings of the World Bank, the International Finance Corporation, the International Development Association and the International Monetary Fund held in Vienna from September 18th to 22nd, 1961.

Income Tax: Apportionment of Expenditure on Repairs and Improvements to Fixed Assets

In the annual report for 1960 the Council reproduced a letter which had been sent to the Chancellor of the Exchequer because it appeared from decisions of the Court in certain cases that an amendment of the income tax law was necessary in order to permit a due apportionment of expenditure consisting partly of repairs and partly of improvements to fixed assets of a business. This matter has since been the subject of correspondence with the Chairman of the Board of Inland

Revenue, as a result of which the Council is now authorized to state that the Board of Inland Revenue consider that such apportionments are permissible under existing law. The effect of the existing law is, in the Board's view, that where expenditure is incurred on work which in fact involved both repairs and improvements to a building or other fixed asset of a business, then the expenditure on repairs can be deducted in computing the taxable profits; accordingly, where it is established that actual repairs have been carried out at the same time as improvements the law permits the expenditure to be apportioned between the two elements.

**Summer Courses 1961: Christ Church, Oxford;
Gonville and Caius College, Cambridge**

The Chairman of the Summer Course Committee reported on the proceedings at Christ Church, Oxford, from July 13th to 18th, 1961, and at Gonville and Caius College, Cambridge, from September 13th to 17th, 1961, and stated that the President has sent letters of appreciation to the speakers, to the governing bodies of the two colleges and the others concerned with the conduct of the courses. The Council decided that the programmes and full texts of the addresses should be reproduced in the form of separate combined booklets, price 5s each, similar to those prepared for previous Oxford courses. An order form will be sent to all members of the Institute.

Summer Courses 1962

The Council has approved the holding of a course at Gonville and Caius College, Cambridge, from July 18th to 22nd, 1962, and a course at Christ Church and Pembroke College, Oxford, from September 13th to 18th, 1962.

South Africa: Bye-law 47

The four societies of chartered accountants in South Africa have for many years been approved by the Council under bye-law 47 to enable the description 'chartered accountants' to be used by a firm with partners consisting of members of the Institute together with a person having the qualification of a South African chartered accountant but not membership of the Institute. Bye-law 47 requires not only that the overseas body of chartered accountants should be approved by the Council but also that the body should be in the British Commonwealth of Nations, and accordingly the approval of the four South African societies of chartered accountants has lapsed following the withdrawal of South Africa from the British Commonwealth. The Council considers that this result would be unfair to the firms which are or may be affected and accordingly proposes to place before the members of the Institute in due course a resolution for the amendment of bye-law 47 to the effect that where an overseas body has been approved under bye-law 47 the approval shall not cease to be effective by reason

only of the country concerned ceasing or having ceased to be within the British Commonwealth of Nations.

In the meantime in accordance with the spirit of the Republic of South Africa (Temporary Provisions) Act, 1961, the Council will not object to the use of the description 'chartered accountants' by any firm which would have been entitled to that description but for the withdrawal of South Africa from the British Commonwealth.

Trustee Savings Banks Inspection Committee

Mr W. G. Densem has been re-appointed by the Council as a member of the Trustee Savings Banks Inspection Committee for a period of four years from November 21st, 1961.

Institute Staff

Mr G. A. Slator, F.C.A., has been appointed as an Assistant Secretary to the Taxation and Research Committee as from September 11th, 1961.

Disqualification of Examination Candidates

The Chairman of the Examination Committee reported that a candidate in the May 1961 Final examination and a candidate in the May 1961 Intermediate examination were discovered attempting to cheat, one of the candidates being found to be in possession of notes in the examination room during one of the papers. The committee had, after inquiry, disqualified both candidates and informed them that they would not be allowed to present themselves for examination on any subsequent occasion.

Examination Results - May 1961

The results of the Institute examinations held in May 1961 were as follows:

	Passed	Failed	Total
Preliminary ..	71	144	215
Intermediate ..	944	1,012	1,956
Final ..	693	805	1,498
	<u>1,708</u>	<u>1,961</u>	<u>3,669</u>

Two candidates (not included in the above figures) were disqualified as reported above.

(The names of the successful candidates and the recipients of prizes and certificates of merit were published in the August 19th, 1961 issue of *The Accountant*.)

The results of the examinations conducted by the Institute as examinations of The Society of Incorporated Accountants were as follows:

	Passed	Failed	Total	Completing Final
Final				
Parts I and II together ..	2	2	4	2
Part I only ..	10	6	16	2
Part II only ..	77	30	107	77

(No honours certificates were awarded. The names of successful candidates were published in the August 19th, 1961 issue of *The Accountant*.)

Registration of Articles

The Secretary reported the registration of 604 articles of clerkship during August and September, the total number since January 1st, 1961, being 1,817.

Admissions to Membership

The following were admitted to membership of the Institute:

Abbott, David Vivian, A.C.A., 1961; 29 Priory Road, Newbury, Berks.
 Abrahams, Paul, B.A., A.C.A., 1961; 31 Station Road, Sidcup, Kent.
 Adams, Anthony Bruce, A.C.A., 1961; 51 Argyle Road, Reading.
 Adams, John Gilbert, B.Sc.(ECON.), A.C.A., 1961; 63 Philbeach Gardens, Kensington, London SW5.
 ¶Adams, Peter Raymond, A.C.A., 1961; P. R. Adams & Co, 129 Clinton Crescent, Hainault, Ilford.
 Adewakun, Morakinyo, B.A.(COM.), A.C.A., 1961; c/o P.O. Box 1390, Ibadan, Nigeria.
 Adey, Alan John, A.C.A., 1961; 174 Upper Woodcote Road, Mapledurham, near Reading.
 Ah-Chuen, Donald, A.C.A., 1961; 5 Reverend Lebrun Street, Cascade Halt, Rose-Hill, Mauritius.
 Aiken, Duncan Leslie, A.C.A., 1961; 39 The Square, Fairfield, near Manchester.
 Ainley, David Harold, A.C.A., 1961; 33 Ashfield Drive, Bradford 9.
 §Alabi, Alfred Bandele, A.S.A.A., 1961; 38 Strachan Street, Lagos, Nigeria.
 Alam, Khan Mohammad Rahat, A.C.A., 1961; with H. Noel French, Ormrod & Co, 3 Fenwick Street, Liverpool 2.
 Allan, John Beresford, A.C.A., 1961; 112B South Road, Waterloo, Liverpool 22.
 Anderson, Patrick Peet, A.C.A., 1961; 11 Ramsdale Crescent, Sherwood, Nottingham.
 Applebee, John Walter, A.C.A., 1961; 210 Cockett Road, Cockett, Swansea.
 Armitage, Michael John, A.C.A., 1961; 16 Eardley Crescent, London SW5.
 Arora, Subhash Chandra, A.C.A., 1961; c/o Lloyds Bank Ltd, 18 Wigmore Street, London W1.
 Ashton, Simon Claude, B.A., A.C.A., 1961; with Binder, Hamlyn & Co, 121 Queen Victoria Street, London EC4.
 Ashworth, Garth Edwin, A.C.A., 1961; 6 Kendal Avenue, Norden, Rochdale, Lancs.
 Aslin, John Reginald, A.C.A., 1961; 26 Leaside Way, Bassett Green, Southampton.
 Atiase, George Kwasi, A.C.A., 1961; College of Administration, Achimota, Accra, Ghana.
 Atkinson, Geoffrey Russell, A.C.A., 1961; 'High Garth', Markington, Harrogate.
 Ayew, John Kwaku, A.C.A., 1961; 30 Winchester Road, Worthing, Sussex.

¶ Denotes member in practice.

§ Means 'incorporated accountant member'.

a Indicates the year of admission to the Institute.

aS indicates the year of admission to the Society of Incorporated Accountants.

Firms not marked † or * are composed wholly of members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of Chartered Accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of Chartered Accountants in Great Britain and Ireland.

‡ Against the name of a firm indicates that the firm includes an incorporated accountant member of the Institute and is composed wholly of members of one or another of the three Institutes of Chartered Accountants in Great Britain and Ireland.

- Baber, Martin Tudor William, A.C.A., 1961; 266 Stapleton Road, Bristol 5.
- Bach, Geoffrey David Benham, A.C.A., 1961; 'Pegsboro', Green Lane, Pangbourne, Reading.
- Bailey, Arthur Alan, A.C.A., 1961; 41 Old Fallings Lane, Wolverhampton.
- Baird, Harry, A.C.A., 1961; 27 Norland Drive, Heysham, Morecambe, Lancs.
- Baldwin, Antony William Wells, M.A., A.C.A., 1961; 50 Douglas Avenue, Exmouth.
- Ballantyne, Ian Stuart, A.C.A., 1961; 'St Stephens', Kingsdown, Deal.
- Ballantyne, Ronald Young, A.C.A., 1961; 24 Chestnut Avenue, Great Crosby, Liverpool 23.
- Banfield, John Clayton, A.C.A., 1961; 68 Stone Lane, Yeovil.
- Barber, Lionel John, A.C.A., 1961; 'Larchwood', Welcomes Road, Kenley, Surrey.
- Barnes, John Howard, B.Sc.(ECON.), A.C.A., 1961; 8 Vaughan Avenue, Stamford Brook, London W6.
- Barnett, Michael, A.C.A., 1961; 10 Needwood House, Woodberry Down, London N4.
- Barnett, Robert Maurice, A.C.A., 1961; c/o The Playhouse, Williamson Square, Liverpool.
- Barrell, (Miss) Marlene Lilian, A.C.A., 1961; 'Red Roofs', Usk Road, Pontypool, Mon.
- Barwick, David John, A.C.A., 1961; 24 Halefield Road, Tottenham, London N17.
- Basuroy, Sudev, A.C.A., 1961; 17 Clive Road, Twickenham, Middlesex.
- Batchelor, John Edward, A.C.A., 1961; 12 Lessar Court, Lessar Avenue, London SW4.
- Batty, Colin John, A.C.A., 1961; 10 Chesterfield Road, Laira, Plymouth.
- Batty, John Milner, A.C.A., 1961; 13 Crooked Usage, Finchley, London N3.
- Bean, (Miss) Clare Freda Proctor, A.C.A., 1961; Home Farm House, Claremont Park, Esher, Surrey.
- Beavis, John Royston Seaford, B.A.(ECON.), A.C.A., 1961; 3 Pembroke Road, Clifton, Bristol 8.
- Beazley, Hugh John Sherard, D.F.C., B.A., A.C.A., 1961; 5 West Side, Turnford, near Broxbourne, Herts.
- Beckett, Anthony Paul, A.C.A., 1961; 43 Wentworth Park Avenue, Harborne, Birmingham 17.
- Bedford, Thomas Anthony Joshua, A.C.A., 1961; 64 Weetwood Lane, Leeds 16.
- §Bell, John Gordon, A.S.A.A., 1961; P.O. Box 1968, Nairobi, Kenya.
- Bell, Nicholas Anthony Campbell, A.C.A., 1961; 4 Redfield Mews, Earl's Court, London SW5.
- Benford, Peter Thomas, B.A., A.C.A., 1961; 146 Latchmere Road, Kingston upon Thames, Surrey.
- Benson, Neil Winston, A.C.A., 1961; 11 Hobbs Green, Church Lane, London N2.
- Bentil, Moses Ben Kwame, A.C.A., 1961; 1 Seymour St, Marble Arch, London W1.
- Beresford, Colin, A.C.A., 1961; with P. F. Pierce & Co, 13 Cannon Street, Accrington.
- Berger, Harvey, A.C.A., 1961; 447 Eastern Avenue, Ilford, Essex.
- Bermon, John Harry, A.C.A., 1961; 7 Chelsworth Close, Thorpe Bay, Essex.
- Bhasin, Chandra Prakash, A.C.A., 1961; c/o Barclays Bank D.C.O., Oceanic House, 1 Cockspur Street, London SW1.
- Bingham, Dennis Edward, A.C.A., 1961; 7 Westdale Rise, Pudsey.
- Bird, Peter Ashby, B.Sc.(ECON.), A.C.A., 1961; 31A North Road, Hertford, Herts.
- Bird, Robert Harvey, A.C.A., 1961; 104 Lanercost Drive, Fenham, Newcastle upon Tyne 5.
- Birley, John Keith, B.A., A.C.A., 1961; 16 Upper Shirley Road, Croydon, Surrey.
- Birmingham, Michael Ernest, A.C.A., 1961; 64 Cambridge Avenue, Greenford, Middlesex.
- Bishop, David Kirby, B.A., A.C.A., 1961; with Mellors, Basden & Mellors, 1 King John's Chambers, Bridlesmith Gate, Nottingham.
- Bishop, Gerald, A.C.A., 1961; 1 Sterling Road, Sittingbourne, Kent.
- Bishop, Ronald Earl, A.C.A., 1961; 5 Buckingham Road, Harrow View, Harrow.
- Blackah, James Herbert, A.C.A., 1961; 1 Henconner Crescent, Chapel Allerton, Leeds 7.
- Blackwell, Michael, A.C.A., 1961; 13 Spinneyfield, Rotherham, Yorks.
- Blakeney, John Samuel, A.C.A., 1961; 44 Meadow Road, Kingswood, Watford.
- Blenkinsop, Basil Thompson, A.C.A., 1961; 425 Moorside Road, Flixton, Manchester.
- Blunt, Philip Richard, A.C.A., 1961; 16 Heathfield Road, Keston, Kent.
- Boldero, Michael Herbert Andrew, A.C.A., 1961; Ford Farm, Ford, near Aylesbury, Bucks.
- Bolton, Michael John, A.C.A., 1961; 6 King George Avenue, Droitwich.
- §Booth, Gerald Edward, A.S.A.A., 1961; 56 Morton Street, South Shields, Co. Durham.
- Booth, Richard John, A.C.A., 1961; with Le Masurier, James & Chinn, P.O. Box No. 16, Martins Bank Chambers, Halkett Place, Jersey, Channel Islands.
- Boss, John Frederick, A.C.A., 1961; 38 Boscombe Avenue, Hornchurch, Essex.
- Bougourd, William Frederick, A.C.A., 1961; 'Belscote', Church Lane, St Sampson's, Guernsey.
- Boulding, John Egerton, B.A., A.C.A., 1961; 4 The Ridgeway, Tonbridge, Kent.
- Boulton, Brian Charles, A.C.A., 1961; 6 Wardour Lodge, Rise Road, Sunningdale, Berks.
- Bower, Julian Thurston Syndercombe, A.C.A., 1961; with Binder, Hamlyn & Co, 121 Queen Victoria Street, London EC4.
- Boyd, Leslie Robert, A.C.A., 1961; 134 Chirkdale Street, Liverpool 4.
- Bradbury, George Leland, B.A., A.C.A., 1961; 22 South Road, Grassendale Park, Liverpool 19.
- Brading, Lawrence William, A.C.A., 1961; 126 Elmers End Road, Beckenham.
- Bradley, Graham Harry, A.C.A., 1961; 368 Penn Road, Penn, Wolverhampton.
- Bradley, Peter, A.C.A., 1961; 12 Briarfield Road, Gosforth, Newcastle upon Tyne 3.
- Braman, Geoffrey Joseph, B.A., A.C.A., 1961; 26 Noel Street, Hyson Green, Nottingham.
- Branchdale, Harry Gideon, M.A., A.C.A., 1961; 'Monks Mead', Crescent West, Hadley Wood, Herts.
- §Brandt, Horst Hermann, A.S.A.A., 1961; 100 Regent Street, Bellevue, Johannesburg.
- Bratherton, Roger, A.C.A., 1961; 38 Bentham Drive, Childwall, Liverpool 16.
- Brett, Michael John, B.Sc.(ECON.), A.C.A., 1961; 64 Huxley Road, Edmonton, London N18.
- Bridel, Ronald Albert Heyward, A.C.A., 1961; 'Paldorron', Mont Arrive, St Peter Port, Guernsey.
- Briggs, Ronald Gaunt, A.C.A., 1961; 8 Rosemont Terrace, The Lanes, Pudsey, Yorks.
- Bright, Derek Norman, A.C.A., 1961; 'Goodmayes', Kelley Road, Falmouth, Cornwall.
- Bristow, Kenneth George, A.C.A., 1961; 33 St Martins Drive, Eynsford, Kent.
- Brockington, Colin, A.C.A., 1961; 34 Walsall Road, Four Oaks, Sutton Coldfield, Warwick.
- Brockington, Raymond Bernard, B.COM., A.C.A., 1961; 50 School Road, Moseley, Birmingham 13.
- §Brooker, Alan Walter, A.S.A.A., 1961; 79 Farrington Road, Ettingshall Park Farm Estate, near Wolverhampton.
- Brown, Alan Charles Law, A.C.A., 1961; 32 Princes Gardens, Cliftonville, Margate, Kent.
- Brown, David Dean, A.C.A., 1961; 16 Warwick Road, Stratford-on-Avon.
- Brown, Leonard, A.C.A., 1961; 3 Collingwood Avenue, Blackpool.
- Bruschi, Paul Julian, A.C.A., 1961; 13 Pearfield Road, Forest Hill, London SE23.

- Buck, John Frederick, A.C.A., 1961; 4 Council Houses, Bridge Road, Long Sutton, near Spalding, Lincs.
- Buckley, Christopher Newell, A.C.A., 1961; Elm Cottage, Westhild, Herefordshire.
- Buckman, Paul Edward, A.C.A., 1961; 194 Stafford Road, Caterham.
- Bullivant, Frank, A.C.A., 1961; 1 Riby Road, Stallingborough, Grimsby.
- Bullivant, Timothy Wild, A.C.A., 1961; Grange Hall, Black Horse Hill, West Kirby, Cheshire.
- Burney, John Murray, B.A., A.C.A., 1961; Starmers Cottage, Main Road, Duston, Northampton.
- Burrowes, Colin James, A.C.A., 1961; 3B St Michael's Terrace, Wood Green, London N22.
- Burton, Gerald, A.C.A., 1961; 73 Chalkhill Road, Wembley Park, Middlesex.
- Butler, Keith Edmund, A.C.A., 1961; 34 Alfred Street South, Nottingham.
- Butterworth, Terence, A.C.A., 1961; 413 Manchester Road, Paddington, Warrington.
- Byford, John Arthur, A.C.A., 1961; 9 Helen Close, West Molesey, Surrey.
- Byrne, Michael Francis, B.A., A.C.A., 1961; 'The Gables', Spencer Road, Wigan.
- Caffyn, Robert James Morris, M.A., A.C.A., 1961; 188 Willingdon Road, Eastbourne.
- Cameron, (Miss) Eileen Maria, A.C.A., 1961; 8 Beechwood Avenue, Sunbury-on-Thames.
- Canfield, Gerald Thomas, A.C.A., 1961; 44 Lynmouth Avenue, Chelmsford.
- Carbutt, Francis, A.C.A., 1961; 'Peddars', Henham, near Bishop's Stortford.
- Carter, David Alan, A.C.A., 1961; 27 Claire Court, Woodside Avenue, North Finchley, London N12.
- Cattley, Frank David George, A.C.A., 1961; with MacIntyre, Hudson & Co, 9 Goldington Road, Bedford.
- Caulfield-Giles, Martin, A.C.A., 1961; 68 Pencisely Road, Cardiff.
- Chandler, Laurence George, A.C.A., 1961; 100 Rannoch Road, London W6.
- Chapman, Roy John, B.A., A.C.A., 1961; 24 Granville Park, London SE13.
- Chiesman, David Walter Rennie, B.A., A.C.A., 1961; 11 The Hermitage, Eliot Hill, London SE13.
- Christopher, Colin Michael, A.C.A., 1961; with John Bain & Co, Basilidon House, Moorgate, London EC2.
- Chubb, Gerald Brian, A.C.A., 1961; 40 Sheffield Road, Fratton, Portsmouth.
- Chung, Yu To, B.COM., A.C.A., 1961; 25 Garthorne Road, Forest Hill, London SE23.
- Clark, Leonard, A.C.A., 1961; 102 Aintree Lane, Aintree, Liverpool 10.
- Clayton, Eric Hill, A.C.A., 1961; 16 Fagley Crescent, Fagley, Bradford 2.
- Clemenson, David John William James, A.C.A., 1961; 25 Thurston Avenue, Southchurch Boulevard, Southend-on-Sea, Essex.
- Clough, Frederick, A.C.A., 1961; 'Lorric', Carlton Road, Runwell, Wickford, Essex.
- Coates, Thomas Geoffrey, A.C.A., 1961; 6 Park Drive, East Sheen, London SW14.
- Cobb, Peter, A.C.A., 1961; 23 Wincanton Road, Redcar, Yorks.
- Cobb, Terence Rawnsley, A.C.A., 1961; 31 Tinshill Drive, Cookridge, Leeds 16.
- Cobley, Garry John, B.SC.(ECON.), A.C.A., 1961; with Graves, Goddard & Horton-Stephens, 7 Pavilion Parade, Brighton.
- Cocker, Robert Alfred, B.A., A.C.A., 1961; 17 Bushwood, Leytonstone, London E11.
- Coker, Paul, A.C.A., 1961; 58 Cuckoo Hill Road, Pinner, Middlesex.
- Cole, Richard William Terence, A.C.A., 1961; 2 Wellington Road, Denton, Newhaven, Sussex.
- Coleman, Malcolm Jerry, A.C.A., 1961; 7 Westchester House, Seymour Street, London W2.
- Coleman, (Miss) Shirley Ann, A.C.A., 1961; 'Robin Hood', Epping New Road, Loughton, Essex.
- Collins, Bryan, A.C.A., 1961; 155 Helmsley Road, Sandyford, Newcastle upon Tyne 2.
- Coombs, Lawrence Blair, LL.B., A.C.A., 1961; 8 Harvard Road, Chiswick, London W4.
- Cooper, Peter Anthony, A.C.A., 1961; 2 Patterdale Road, Liverpool 15.
- Cooper, Robert McIntosh, A.C.A., 1961; 47 Higher Drive, Banstead.
- Corbett, Alan Roland, A.C.A., 1961; 106 Cranbrook Road, Ilford, Essex.
- Cormie, Donald Henry, A.C.A., 1961; 188 Winchester Road, Stretford, Lancs.
- Corrin, John Richard, A.C.A., 1961; 18 Westminster Drive, Wrexham.
- Costain, Peter John, A.C.A., 1961; 'Inwarken', Woodland Way, Kingswood, Surrey.
- Coward, John Michael, A.C.A., 1961; 73 Cavendish Avenue, Motspur Park, New Malden, Surrey.
- Coward, Robert Ernest, A.C.A., 1961; 32 Granville Park, Lewisham, London SE13.
- Cowlishaw, Anthony Roy, A.C.A., 1961; 10 Langley Road, Sale, Cheshire.
- Cox, Edward John Machell, A.C.A., 1961; Flat A, 6 Staveley Road, Eastbourne.
- Creswell, Simon Hawkshaw, B.A., A.C.A., 1961; 48 Hans Place, London SW1.
- Crookes, John Brian, A.C.A., 1961; 292 Stannington Road, Malin Bridge, Sheffield 6.
- Cropp, Howard Reginald, A.C.A., 1961; 41 New Road, Digswell, Welwyn Garden City, Herts.
- Crosby, Neil Turner, B.COM., A.C.A., 1961; 86 Greenhill Lane, Wortley, Leeds 12.
- Cross, William John, A.C.A., 1961; 16 Spring Gardens, Chelsfield, Orpington, Kent.
- Crosse, Peter Leonard Hale, A.C.A., 1961; 147 Whitchurch Lane, Edgware, Middlesex.
- Croston, Peter, A.C.A., 1961; 34 Lyndhurst Road, Southport, Lancs.
- Croudson, Roger, A.C.A., 1961; 228 Lidgett Lane, Leeds 17.
- Culverwell, Peter John Harford, A.C.A., 1961; 'Woodleaze', Knott Park, Oxshott, Surrey.
- Cumming, Neil Tait, A.C.A., 1961; 65 Stoke Lane, Westbury-on-Trym, Bristol.
- Cundle, Alfred Ernest, A.C.A., 1961; 195 Brinkburn Road, Darlington.
- Cunningham, William, A.C.A., 1961; 59 Daybrook Road, Merton Park, London SW19.
- Curtis, Stuart, A.C.A., 1961; 106 Park Road, Cwmpark, Treorchy, Rhondda, Glam.
- Daburn, George, A.C.A., 1961; 39 St Helens Road, Prescott, Lancs.
- Dakin, Tony John, A.C.A., 1961; 'Lancsom', Audley Park Road, Bath.
- Dare, Barry Stanton, B.SC.(ECON.), A.C.A., 1961; 20 Grove Gardens, Teddington.
- Davidson, Terence Jude, A.C.A., 1961; 13 Elmgrove Crescent, Harrow.
- Davies, Brian Gordon, B.A., A.C.A., 1961; 243 Llantarnam Road, Cwmbran, Mon.
- Davies, David Anthony, A.C.A., 1961; 13 Towton Road, London SE27.
- Davies, David Peter Lloyd, A.C.A., 1961; 11 Westbourne Road, Penarth, Glam.
- Davies, Martin, A.C.A., 1961; 55 Sunny Bank Road, Wylde Green, Sutton Coldfield.
- Davies, Richard Racine, A.C.A., 1961; 47 Warwick Square, London SW1.
- Davis, David, B.SC., A.C.A., 1961; 164 Bethune Road, London N16.
- Dawson, David Henry Milner, A.C.A., 1961; 306 Uttometer Road, Derby.
- D'Cruz, Trevlyn Raphael, A.C.A., 1961; 137 Ramsden Road, Balham, London SW12.

- Deacon, Michael Anthony John, A.C.A., 1961; 3 Mylne Street, Finsbury, London EC1.
- Deeks, Douglas John Arthur, A.C.A., 1961; with Pratt & Co, 44 Robertson Street, Hastings, Sussex.
- Denchfield, Michael David, A.C.A., 1961; 91 Halstead Road, Winchmore Hill, London N21.
- Desai, Kantilal Gopalji, A.C.A., 1961; 40 Craven Road, London W2.
- Dacey, Clive Richard, A.C.A., 1961; 73A Park Avenue, Egham, Surrey.
- Dicker, Sidney Samuel, A.C.A., 1961; 9 Leweston Place, London N16.
- Dickerson, Peter James, B.SC.(ECON.), A.C.A., 1961; 30 Park Gate, Blackheath, London SE3.
- Dillon, Terence John, A.C.A., 1961; 4 Alleyn Crescent, West Dulwich, London SE21.
- Dingle, Leslie Roy, A.C.A., 1961; 10 Nevern Place, London SW5.
- Dixon, Anthony William, A.C.A., 1961; 80 Moor Drive, Great Crosby, Liverpool 23.
- Dobson, Francis, A.C.A., 1961; 10 Barff Road, Weaste, Salford 5.
- Dodge, Graham Bruce, A.C.A., 1961; 132 Amesbury Avenue, Streatham Hill, London SW2.
- Donhue, David Scott, A.C.A., 1961; 40 Woodhall Avenue, Whitefield, Manchester.
- Doram, Joseph Edward, A.C.A., 1961; 31 High St, Clayhanger, Brownhills, Walsall, Staffs.
- Douglas, Peter, A.C.A., 1961; 8 Hollywood Grove, Fleetwood, Lancs.
- Downs, Brian, A.C.A., 1961; 82 Highfield Road, Blackpool SS.
- Drake, Kenneth James, A.C.A., 1961; Long Cottage, Cox Green, Maidenhead.
- Drapkin, Aubrey, A.C.A., 1961; 29 Armstrong Road, Benwell, Newcastle upon Tyne 4.
- Dry, Gordon, A.C.A., 1961; 15 Derwent Avenue, North Ferriby, Yorks.
- Dunkley, Douglas McCallum, B.A., A.C.A., 1961; 161 High Town Road, Luton.
- Dunn, John Eric Shiers, A.C.A., 1961; Yew Tree Cottage, Unthank Lane, Holmesfield, near Sheffield.
- Eastmond, Deyman Gregory, B.A., A.C.A., 1961; 2 Stanley Crescent, London W11.
- Easton, Philip Alan, A.C.A., 1961; 173 Lower Road, Great Bookham, Leatherhead, Surrey.
- §Eckstein, Paul Alexander, A.S.A.A., 1961; London House, Guilford Street, London WC1.
- Edelman, Jeffery, A.C.A., 1961; 33 Tennyson Avenue, London E11.
- Edwards, Alan Clifford, A.C.A., 1961; 9 Ferngate Drive, Withington, Manchester 20.
- Edwards, Ian Charles, A.C.A., 1961; 'Glan-Yr-Afon', Blackwood, Mon.
- El-Bahrani, Izel-Din Salim, B.A., A.C.A., 1961; c/o W. C. Barnes, Iraqi Embassy, 22 Queen's Gate, London SW7.
- Elles-Hill, Michael Patrick, A.C.A., 1961; 19 Kensington Place, London W8.
- Ellis, Andrew Jackson, A.C.A., 1961; 142 Chesterfield Road North, Mansfield.
- Elphick, John Brian, A.C.A., 1961; with E. Noel Humphreys & Co, 9-11 Old Bank Bldgs, Eastgate, Chester.
- Elwood, Michael Edward, A.C.A., 1961; 51 Skinnerthorpe Road, Sheffield 4.
- Emanuel, Peter Moss, A.C.A., 1961; G.02, Du Cane Court, Balham, London SW17.
- Emery, John Richard, A.C.A., 1961; 15 Loddiges Road, Mare Street, Hackney, London E9.
- Evans, Howard John, A.C.A., 1961; 8 St Brigid Road, Heath, Cardiff.
- Evans, Michael Rowland, A.C.A., 1961; 72 Shawbrook Road, Burnage, Manchester 19.
- Evans, Peter Gordon, A.C.A., 1961; Alton Park, Alton, Hants.
- §Evans, William Arnold, A.S.A.A., 1961; 55 London Road, Bishop's Stortford, Herts.
- Everitt, David Terence, A.C.A., 1961; 91 Waller Avenue, Luton.
- Falk, Harold Raymond, A.C.A., 1961; 12 Arlington Avenue, Prestwich, Manchester.
- Farrow, Frederick Charles, A.C.A., 1961; 125 Carr Lane, Willerby, near Hull.
- Felton, Arthur, A.C.A., 1961; 44 Fonthill Grove, Sale, Cheshire.
- ¶Ferguson, Samuel Alfred, A.C.A., 1961; *Fred Hargreaves & Co and *Samuel A. Ferguson & Co, Bow Chambers, 55 Cross Street, Manchester 2.
- Ferner, Gordon John, A.C.A., 1961; 10 Cowdrey Close, Maidstone, Kent.
- Fern, Edward Arthur, A.C.A., 1961; 54 Millfields Avenue, Rugby.
- Field, John Robert, A.C.A., 1961; 99 Salisbury Road, Worcester Park.
- Field, Peter John, A.C.A., 1961; 353 Wickham Lane, Abbey Wood, London SE2.
- Fielden, Mark, B.A., A.C.A., 1961; 30 Creffield Road, Colchester.
- Fielder, Walter Henry, A.C.A., 1961; 6 Campbell Crescent, East Grinstead, Sussex.
- Fish, Peter John, A.C.A., 1961; 'Falmoor', Meriden Road, Hampton-in-Arden, Warwicks.
- Fisher, Robert Eric John, A.C.A., 1961; 'Rockingham', Dennis Lane, Stanmore, Middlesex.
- Flatto, Kenneth Allan, A.C.A., 1961; 18 Forres Gardens, Finchley Road, London NW11.
- Fletcher, John Robert, A.C.A., 1961; Coton Hall Farm, Tamworth, Staffs.
- Flower, John Francis, B.SC.(ECON.), A.C.A., 1961; 75 Engel Park, Mill Hill, London NW7.
- Flowers, John, A.C.A., 1961; with John A. Flowers, F.C.A., Mail Buildings, Jameson Street, Hull.
- Ford, Leslie Joseph, A.C.A., 1961; 2 Jellicoe Avenue, Lincoln.
- Franklin, Leonard Geoffrey, A.C.A., 1961; 34 Finstock Road, Ladbroke Grove, Kelfield Gardens, London W10.
- Freeman, John Anthony, B.COM., A.C.A., 1961; 'Woodfield', Derby Road, Mansfield.
- Fung, Shiu Lam, A.C.A., 1961; c/o Wah Hing Co. Ltd, P.O. Box 841, Hong Kong.
- Furness, Alan John, A.C.A., 1961; 36 Sirdar Road, Wood Green, London N22.
- Galletti Di Cadilhac, Arthur David, A.C.A., 1961; Aveley House, Aveley Lane, Farnham.
- Game, Ralph, A.C.A., 1961; 136 High St, Stevenage, Herts.
- Garratt, Graham Stanley, A.C.A., 1961; 81 Ashlands Road, Harpfields, Stoke-on-Trent.
- Garside, Philip Frederick, A.C.A., 1961; 28 Grosvenor Road, Hyde, Cheshire.
- Gay, Barrie, A.C.A., 1961; Fleming House, Station Road, Romsey, Hants.
- Germain, Richard Michael Carrington, B.SC.(ECON.), A.C.A., 1961; 8 Cosway Street, London NW1.
- Gerrard, Laurence Jack, A.C.A., 1961; 76 Eversleigh Road, Finchley, London N3.
- Ghauri, Akram Mohyuddin, A.C.A., 1961; with W. Critchley & Co, 35 King Street, Wigan.
- §Ghosh, Sourangshu Mohan, A.S.A.A., 1961; with Lavy, Ascher & Co, Imperial House, Dominion Street, London EC2.
- Gilbert, John Frederick, A.C.A., 1961; 37 Romney Road, Ensby Park, Bournemouth.
- Gill, Edmund James, A.C.A., 1961; 37 Vainor Road, Sheffield 6.
- Gill, Francis Douglas, A.C.A., 1961; 12 Brookside Road, Loughborough, Leics.
- Gill, John, A.C.A., 1961; 64 The Downs, Altrincham, Cheshire.
- Gillett, David John, A.C.A., 1961; 36 Henley Crescent, Braunstone, Leicester.

- Glasscock, Brian Sydney, A.C.A., 1961; c/o Eastern Produce Africa Ltd, Candlewick House, 116/126 Cannon Street, London EC4.
- Glazer, Donald, B.A., A.C.A., 1961; 29 Ranelagh Drive, Edgware.
- Gloucester-Trotman, Roger Jocelyn, A.C.A., 1961; 33 The Gallop, Sutton, Surrey.
- Goldberg, Harvey, A.C.A., 1961; 36 Portland Avenue, Southend-on-Sea.
- Goldthorpe, Keith Alan, A.C.A., 1961; 17 Southlands Avenue, King Lane, Leeds 17.
- Goodey, Brian Michael, A.C.A., 1961; 23 The Crossways, Birstall, Leicester.
- Goodman, Keith, B.A.(ECON.), A.C.A., 1961; 33 Mill Road, Stapleford, Nottingham.
- Goodsir, George Spiers, A.C.A., 1961; 1 Hampton Close, Cottenham Park Road, London SW20.
- Gordon, Robert Michael, A.C.A., 1961; 'Pines', Merdon Avenue, Chandlers Ford, Hants.
- Gordon, Vincent, A.C.A., 1961; 39 Beech Road, Tranmere, Birkenhead, Cheshire.
- §Gorvy, Manfred Stanley, A.S.A.A., 1961; 20 Wilds Crest, Tenth Street, Killarney, Johannesburg.
- Goss, Kenil Kamal, A.C.A., 1961; 26 Belsize Avenue, Hampstead, London NW3.
- Gowanlock, John Robert, A.C.A., 1961; 147 Bradfield Road, Urmston, Manchester.
- Graham, Angus, John Malise, A.C.A., 1961; White House, Seaford, Sussex.
- Granger, Christopher Francis Kendall, A.C.A., 1961; Manor Court, Bramcote, Notts.
- Grant, Rodney, B.A., A.C.A., 1961; 10 Ashburn Gardens, Kensington, London SW7.
- Graves, Thomas Henry, A.C.A., 1961; 33A Downside Crescent, London NW3.
- Gray, Simon Talbot, A.C.A., 1961; 22 Audley Road, Ealing, London W5.
- Green, Michael, A.C.A., 1961; 54A High Street, Cheam, Surrey.
- Green, Victor Maurice, A.C.A., 1961; 21 St Albans Road, London Road, Leicester.
- Greenway, Richard Allan, A.C.A., 1961; 310 Keyes House, Dolphin Square, London SW1.
- Greenwood, Adrian Grenville, A.C.A., 1961; 'Shawcroft', Luddenham, near Halifax.
- Greggs, John Walter, A.C.A., 1961; 82 Score Lane, Liverpool 16.
- Gregory, (Miss) Ethel Mary, A.C.A., 1961; with Pulleyn, Heselton & Co, 10 York Place, Scarborough.
- Griffiths, David Colin, B.A., A.C.A., 1961; 13 Berw Road, Llwynypia, Rhondda, Glam.
- Grossick, Ian Robert, A.C.A., 1961; 181 Rooley Moor Road, Rochdale, Lancs.
- Grundy, Humphrey Fielding, A.C.A., 1961; 474 Hale Road, Hale Barns, near Altrincham, Cheshire.
- Hackett, John Charles, A.C.A., 1961; 39 Comberton Avenue, Kidderminster, Worcs.
- Hall, James Patrick, A.C.A., 1961; 41 Rosslyn Road, Heald Green, Cheadle.
- Harcourt Williams, Martin Frederic, B.A., A.C.A., 1961; The Cottage, Childer Thornton, Cheshire.
- Harriman, Roger, A.C.A., 1961; 28 Oakdene Crescent, Weddington, Nuneaton.
- Harris, David Kenneth, A.C.A., 1961; 27 Birchwood Avenue, Muswell Hill, London N10.
- Harrison, Michael Alan Brian, B.A., A.C.A., 1961; 52 Gloucester Place, London W1.
- Hart, Leonard Frank, A.C.A., 1961; 17 Rochford Road, Bishop's Stortford, Herts.
- Hartley, James Paul, A.C.A., 1961; 'Half Acre', Carr Hall Road, Barrowford, Nelson, Lancs.
- Hassan, Mohamed Aly, A.C.A., 1961; 29 Henconner Lane, Leeds 7.
- §Hawksworth, Brian Michael, A.S.A.A., 1961; 9 Oslo Court, Montpelier Road, Durban, Natal, South Africa.
- Haycock, Lewis Clement, A.C.A., 1961; 'Hoon Hay', The Drive, Belmont, Surrey.
- Hayward, John Anthony Irving, A.C.A., 1961; 12 Albert Road, Trentham, Stoke-on-Trent.
- Hearn, Michael Ernest, A.C.A., 1961; 435 Westhorne Avenue, Eltham, London SE9.
- Heller, Michael Aron, B.A., A.C.A., 1961; 21 Cavendish Avenue, St James Park, Harrogate, Yorks.
- Hellewell, David Simpson, A.C.A., 1961; 61 Cross Green, Otley, Yorks.
- Henderson, Michael John Glidden, A.C.A., 1961; 40 Disraeli Road, Ealing, London W5.
- Henstock, Barry Anthony, A.C.A., 1961; 24 Ingham Street, Bury.
- Hewett, Michael Arthur Edwin, A.C.A., 1961; 73 Telford Avenue, Streatham Hill, London SW2.
- Heywood, Michael Walter, A.C.A., 1961; 45 Alexandra Avenue, Meole Brace, Shrewsbury.
- Hibbs, David Lawson, A.C.A., 1961; 'Kingsbury', Lincoln Road, Nettleham, Lincoln.
- Hickling, John Valentine, A.C.A., 1961; 'Willow Springs', Hadham Road, Bishop's Stortford, Herts.
- Hignett, John Mulock, B.A., A.C.A., 1961; 47 Hasker St, London SW3.
- Hilaluddin, Syed, A.C.A., 1961; 18 Elm Park Road, London N3.
- Hill, Donald, A.C.A., 1961; Lower Fold Head Farm, Whitworth, near Rochdale, Lancs.
- Hill, Robin Humphry, A.C.A., 1961; 'Hurstcote', Cumnor, Oxford.
- Hills, Anthony John, A.C.A., 1961; with Blackham & Hills, 191 Corporation Street, Birmingham 4.
- Hinton, John Graham, A.C.A., 1961; 42 Charlemont Crescent, West Bromwich.
- Hitchins, Wilfred David William, A.C.A., 1961; c/o E. J. S. Beckley, 23A Queen Victoria Street, Reading.
- Hoare, Philip John, A.C.A., 1961; 54 Station Road, Harrow, Middlesex.
- Hobbs, William John, A.C.A., 1961; 'Eversley', Beards Lane, Stroud, Gloucs.
- Hodgkinson, Brian James, A.C.A., 1961; 225 Rayners Lane, Harrow.
- Hodson, Peter John Lea, A.C.A., 1961; 6 Grange Avenue, Flixton, near Manchester.
- Holden, Graham Owen, A.C.A., 1961; 155 New Street, West Bromwich, Staffs.
- Holden, Jocelyn Basil, A.C.A., 1961; with Holden, Howard & Co, 3 Abchurch Yard, London EC4.
- Hollings, Peter Reginald, A.C.A., 1961; 11 Brewery Lane, Freshfield, near Liverpool.
- Holt, Robert David, A.C.A., 1961; 35 Exton Road, Sherwood, Nottingham.
- Holwell, Peter, B.Sc.(ECON.), A.C.A., 1961; 8A Avenue Elmers, Surbiton, Surrey.
- Hooper, John Charles Martin, A.C.A., 1961; 419 Halifax Road, Bradford 6.
- Hopewell, Lionel Charles, A.C.A., 1961; 'Cheriton', Rallwood Road, Ashted, Surrey.
- Horton, Dominic, A.C.A., 1961; 68 Constantine Road, Hampstead, London NW3.
- Howe, David Patrick Leonard, A.C.A., 1961; 7 Richmond Park Road, Clifton, Bristol 8.
- Howkins, George Charles Shirley, B.A., A.C.A., 1961; 13 Admirals Walk, Hampstead, London NW3.
- Howlett, John Charles, A.C.A., 1961; 23 Chelsworth Drive, Plumstead, London SE18.
- Hudson, Ian William, A.C.A., 1961; 21 Northey Avenue, Cheam, Surrey.
- Hughes, Aubrey Daniel Bedford, B.A., A.C.A., 1961; 19 Cedar Way, Sunbury-on-Thames, Middlesex.
- Hughes, Evan Glyn, A.C.A., 1961; 4 Warner Road, Hornsey, London N8.
- Hughes, John, A.C.A., 1961; 9A Kensington Place, London W8.
- Hughes, Ronald Edward, A.C.A., 1961; 36 Sydenham Avenue, Abergele, Denbighs.

- §Hull, Anthony Grove Horton, A.S.A.A., 1961; with Touche Ross, Bailey & Smart, 3 London Wall Bldgs, London EC2
- Hulmes, David, A.C.A., 1961; 27 Hembury Avenue, Burnage, Manchester 19.
- Humphry, Brian Gedge, A.C.A., 1961; 206 Coleherne Court, London SW5.
- Hunter, Robert, A.C.A., 1961; 23 Three Kings Yard, Davies Street, London W1.
- Hussain, Syed Rashid, A.C.A., 1961; c/o Lloyds Bank Ltd, 102 South End, Croydon, Surrey.
- Hustwick, John Charles, A.C.A., 1961; 'Whyn Brae', Heathness, Addingham, near Ilkley, Yorks.
- Hutchins, Colin George, A.C.A., 1961; 57 Inverness Place, Roath Park, Cardiff.
- Ide, Norman Sydney, A.C.A., 1961; 235 Hampton Road, Twickenham, Middlesex.
- Irons, Robert John Michael, A.C.A., 1961; 38 Duckett Road, Hornsey, London N4.
- Isherwood, Anthony Vincent de Paul, A.C.A., 1961; 21 Hillcrest Gardens, Hinchley Wood, Esher.
- Jackson, Alwyn Dudley, A.C.A., 1961; 48 Arboretum Street, Nottingham.
- Jackson, Peter Norman, A.C.A., 1961; 68 Telford Avenue, Lillington, Leamington Spa, Warwicks.
- James, Alan, A.C.A., 1961; 1 Upper Wortley Road, Leeds 12.
- James, Peter Stoyale, B.Sc.(ECON.), A.C.A., 1961; 6 Aberconway Place, Oakdale, Blackwood, Mon.
- Jamieson, Norman, A.C.A., 1961; 39 Hawthorne Avenue, Mitcham, Surrey.
- Jenvey, David Ralph, A.C.A., 1961; 66 Manor Road South, Hinchley Wood, Esher.
- Jeremy, John David Sydney, B.A., A.C.A., 1961; 80 Mill Gardens, Blackpill, Swansea.
- Jevons, Harold, A.C.A., 1961; 18 Colmore Road, Leeds 12.
- Joannou, Vassilios, A.C.A., 1961; 8 Ploutarchou Street, Nicosia, Cyprus.
- Johnson, Frederick Charles, A.C.A., 1961; 30 Sir Oswald Stoll Mansions, Fulham Road, London SW6.
- Johnston, Graham George Fleming, A.C.A., 1961; 'Shongweni', Noads Way, Dibden Purlieu, Southampton.
- Jolley, Joseph Derek, A.C.A., 1961; 21 Cleveland Road, Ilford, Essex.
- Jones, David Charles Spencer, A.C.A., 1961; 'Bickleigh', Station Lane, Lapworth, Solihull, Warwicks.
- Jones, David George, A.C.A., 1961; 4 Edgemoor Drive, Thornton, Liverpool 23.
- Jones, Gerwyn Maybery, A.C.A., 1961; 'Woodlea', Myrtle Grove, Sketty, Swansea.
- §Jones, Halsall Stanley Elsley, A.S.A.A., 1961; c/o Mockford, Allan, Jones & Co, 10th Floor, St Andrews Building, 39 Rissik Street, Johannesburg.
- Jones, Keith Alban, A.C.A., 1961; 3 Moelivor Terrace, Llanrhystyd, Cardiganshire.
- Jones, Leslie Gordon, A.C.A., 1961; 25 Torquay Grove, Woodsmoor, Stockport.
- Jones, Peter Wingfield, A.C.A., 1961; 55 Four Pounds Avenue, Coventry.
- Jooma, Ali, A.C.A., 1961; Mariam Mahal, 182 Britto Road, Karachi, Pakistan.
- Jose, Michael Anthony, A.C.A., 1961; 28 Bankart Avenue, Stonegate, Leicester.
- Jowett, Kenneth, A.C.A., 1961; Dairy House, Kirkby Malzeard, Ripon, Yorks.
- Jukes, William David, A.C.A., 1961; 557 Queens Drive, Stoneycroft, Liverpool 13.
- Kamal, Ahmed, A.C.A., 1961; c/o Mrs Anwar Basheer, 67/68A No. 4 New Queens Road, Karachi, Pakistan.
- Kay, Donald George Frederick, B.COM., A.C.A., 1961; 14 Boldmere Road, Eastcote, Pinner.
- Kay, Trevor Nigel, A.C.A., 1961; with Creer, Eddy, Rank & Co, 8 Coppergate, York.
- Kaye, Edmund Stanley, A.C.A., 1961; 97 Brune House, Toynbee Street, London E1.
- Keat, Anthony George Joseph, A.C.A., 1961; 71 Pembroke Crescent, Hove 3.
- Keefe, Donald George, A.C.A., 1961; with K. Ivor Morgan & Co, Druslyn House, De La Beche Street, Swansea.
- Kelley, Peter David, A.C.A., 1961; Clive House, Plymouth Road, Barnet Green, Birmingham.
- Kemsley, Kenneth Jack Zeital, A.C.A., 1961; 76 Abbotswood Gardens, Ilford, Essex.
- Kensett, James Richard, A.C.A., 1961; 17A Marine Square, Brighton.
- Kensington, Julian Alfred Ivan St Vincent, B.A., A.C.A., 1961; 10A Heathview Gardens, Putney, London SW15.
- Kent, Derrence John, A.C.A., 1961; 23 Meole Walk, Meole Brace, Shrewsbury.
- Kerrich, Jeremy Adrian Ambrose, A.C.A., 1961; c/o Coutts & Co, Lombard Street, London EC3.
- Keymer, Kenneth David, A.C.A., 1961; 'Sherbrooke', Waterhouse Lane, Kingswood, Surrey.
- Khoo, (Miss) Min-Yeok, A.C.A., 1961; c/o E. Hong, 55 Cleveland Square, London W2.
- Kidwai, Istifa Zaheer, A.C.A., 1961; 168 Holland Park Avenue, London W1.
- Kilvert, Kenneth, A.C.A., 1961; 35 Eveson Road, Norton, Stourbridge.
- King, Christopher Paul, A.C.A., 1961; 'Basset Mead', Windmill Lane, Dorridge, Warwicks.
- Kinsella, John, A.C.A., 1961; 18 Westcombe Park Road, Blackheath, London SE3.
- Kirkbright, Dennis, A.C.A., 1961; 51 Park Road, Guiseley, near Leeds.
- Kirkham, William Wade, A.C.A., 1961; with Howell & Hanbridge, 5 Hounsfield Road, Sheffield 3.
- Kirtley, George, A.C.A., 1961; 21 Dene Road, Blackhall Rocks, near West Hartlepool.
- Knight, Douglas Malcolm, A.C.A., 1961; 11 Arundel Close, Hampton Hill, Middlesex.
- Knowles, Trevor, A.C.A., 1961; 35 Kings Bench Street, Hull.
- Krusin, Peter Henry, B.A., A.C.A., 1961; Strand House, Ashford, Barnstaple, Devon.
- Lacey, Derek Oliver, A.C.A., 1961; 51 Wash Road, Hutton, Essex.
- Lassman, Malcolm Arnold, LL.B., A.C.A., 1961; 32 Gainsborough Road, Finchley, London N12.
- Latchford, James Frederick, B.A., A.C.A., 1961; 16 Hervey Close, Finchley, London N3.
- Latham, Peter John Baldwin, A.C.A., 1961; with Edward Boyles & Co, Holborn House, 113 High Holborn, London WC1.
- Lawrence, Geoffrey Charles, A.C.A., 1961; 9 Shirley Way, Shirley, Croydon.
- Lawrence, Peter John, A.C.A., 1961; 2 Aymer Road, Hove.
- Lawrence, William James, A.C.A., 1961; 73 Dale View Avenue, Chingford, London E4.
- Lawson, Kenneth, A.C.A., 1961; 64 Amwell Street, Hoddesdon, Herts.
- Learmont, John Malcolm, A.C.A., 1961; 19 Radnornmere Drive, Chaddle, Cheshire.
- Lee, Harold Pembroke, B.Sc.(ECON.), A.C.A., 1961; 22 Hillcrest Rise, Cookridge, Leeds 16.
- Leech, Edward, A.C.A., 1961; 32 Witley Drive, Ashton-on-Mersey, Sale, Cheshire.
- Lees, John Robin Middleton, A.C.A., 1961; 39 Hambro Avenue, Hayes, Bromley, Kent.
- Lees, Marshall Cobbold, B.Sc.(ECON.), A.C.A., 1961; 26 King Edward's Grove, Teddington, Middlesex.
- Lester, Michael, A.C.A., 1961; 12 Ennerdale House, Woodberry Down, London N4.
- Lever, Thomas James, A.C.A., 1961; 4 Granville Park, Lewisham, London SE13.
- Lewis, David John, A.C.A., 1961; 60 Elmfield Way, Sanderstead, Surrey.

- Lewis, Jack, A.C.A., 1961; 5 Teasdale Close, Chadderton, Oldham.
- Lewis, (Miss) Patricia, A.C.A., 1961; 'Woodcroft', Tickenham, Clevedon, Somerset.
- Limburg, Maurice Derek, A.C.A., 1961; 123 Cheviot Gardens, London NW2.
- Littlewood, Robert David, A.C.A., 1961; 26 Castlewood Road, Sheffield 10.
- Liyanagama, Ratnapla, A.C.A., 1961; 163 Essex Road, Leyton, London E10.
- Lock, Stuart John, A.C.A., 1961; 99 Woodside Avenue, Chislehurst, Kent.
- Lodge, Richard Stanley, A.C.A., 1961; Flat 1, 44 Spencer Place, Leeds 7.
- Loizou, George Antoniou, A.C.A., 1961; 2 Phidias Street, P.O. Box 147, Larnaca, Cyprus.
- Longe, Richard Francis Hastings, A.C.A., 1961; Hasketon Manor, Woodbridge, Suffolk.
- Lonsdale, Roger David, A.C.A., 1961; 5 Rowlands Road, Summerseat, Ramsbottom, via Bury.
- Loveless, Brian Charles, A.S.A.A., 1961; 9 Royston Court, Royston Gardens, Ilford, Essex.
- Lowe, Charles Neville, A.C.A., 1961; 70 Pingle Road, Sheffield 7.
- Lowe, David John, A.C.A., 1961; 2 Ingledene Road, Liverpool 18.
- Lowe, Ronald Campbell, A.C.A., 1961; 66 Linkstor Road, Woolton, Liverpool 25.
- Luckman, John William, A.C.A., 1961; 87 Lord Lytton Avenue, Coventry.
- Lulham, Joseph Robert Ferris, A.C.A., 1961; 4 Netherleigh Mansions, Shrubbery Road, Weston-super-Mare.
- Luscombe, Donald Joseph, A.C.A., 1961; Stavgränd 13, Hagersten, Sweden.
- McBain, Donald, A.C.A., 1961; 21 Archerfield Road, Allerton, Liverpool 18.
- McCarthy, Colin Michael, B.A., A.C.A., 1961; 1 Richards Close, Hillingdon, Middlesex.
- MacGillivray, Alastair John, A.C.A., 1961; 27 Campden Crescent, North Wembley, Middlesex.
- McHarg, (Miss) Ann Janette, A.C.A., 1961; 'The Poplars', Abertillery, Mon.
- McIver, David Kenneth Fraser, A.C.A., 1961; 'Downside', Springfield Road, Wantage, Berks.
- MacKay, Christopher Tom, A.C.A., 1961; 48 Addington Road, Sanderstead, Surrey.
- McKelvie, David Mackie, A.C.A., 1961; 'The Old Bull's Head', 102 London Road, Bishop's Stortford, Herts.
- McKenzie, Grahame Donald, A.C.A., 1961; 60B Addison Road, Kensington, London W14.
- MacKenzie, Hamish John, B.A., A.C.A., 1961; 'Seaforth', Fort Road, Alverstone, Hants.
- Macpherson, Malcolm James, A.C.A., 1961; 33 Courtfield Road, London SW7.
- Madigan, Alan William, A.C.A., 1961; 239 Phipps Bridge Road, Merton Abbey, London SW19.
- Maher, Timothy, A.C.A., 1961; 22 Claverton Street, Pimlico, London SW1.
- Malik, Feroze Khan, A.C.A., 1961; 2/61-G, P.E.C.H.S., Karachi 29, West Pakistan.
- Malnick, Richard Samuel, B.Sc.(ECON.), A.C.A., 1961; 32 Fordington Road, London N6.
- Manford, John, A.C.A., 1961; Lower Wykey Farm, Ruyton-Eleven-Towns, Shrewsbury.
- Manners, Norman, A.C.A., 1961; Bottom Flat, 'Goon-glaze', St Ithians, Truro.
- Martin, Keith Ryder, A.C.A., 1961; 18 Lansdowne Road, Seven Kings, Ilford, Essex.
- Maskall, Michael Edwin, A.C.A., 1961; 1 Gilbert Road, Romford, Essex.
- Mason, Christopher Miles, B.A., A.C.A., 1961; 2 Victoria Road, West Kirby, Cheshire.
- Mason, Dennis William, A.C.A., 1961; 29 Pound Farm Road, Chichester, Sussex.
- Maule, Eric Edwin, A.C.A., 1961; with Ensor, Son & Gault, 7 Elm Street, Ipswich.
- May, Robert Aron, A.C.A., 1961; 243 Kenton Road, Kenton, Harrow, Middlesex.
- Meek, Bryan Sutcliffe, A.C.A., 1961; 70 Mount Pleasant, Tunbridge Wells, Kent.
- Mehta, Abhaykant Sukhlal, A.C.A., 1961; 72 Palatine Road, West Didsbury, Manchester 20.
- Mepharm, Brian William, A.C.A., 1961; 7 Sandy Way, Walton-on-Thames, Surrey.
- Meyer, Peter John Herman, B.A., A.C.A., 1961; 24 Rhydelig Avenue, Cardiff.
- Middleton, David Gordon Souter, A.C.A., 1961; 18 Cliffe Park, Seaburn, Sunderland.
- Miles, Derek William, A.C.A., 1961; 21 Hampstead Hill Gardens, Hampstead, London NW3.
- Miller, Alan John, A.C.A., 1961; 248 Stockingstone Road, Luton.
- Miller, Kenneth William, A.C.A., 1961; 415 Cannon Hill Lane, West Wimbledon, London SW20.
- Miller, Thomas Patrick, A.C.A., 1961; 'Holmwood', Stanborough Park, Watford, Herts.
- Mills, Reginald Brian, A.C.A., 1961; 1 Lyttelton Road, Edgbaston, Birmingham 16.
- Milne, John Duncan, A.C.A., 1961; Flat 3, 116 Brudenell Road, Headingley, Leeds 6.
- Mitchell, Charles Basil, A.C.A., 1961; 'Malvern', Grantham Avenue, Walton, Warrington.
- Mitchell, David Ralph Wilmer, A.C.A., 1961; 7 Lambert Road, Ribblesdale, Preston.
- Mittias, Armia, A.C.A., 1961; with Nawar & Co, P.O. Box 627, Tripoli, Libya.
- Mizen, Paul, A.C.A., 1961; with Barron, Bass & Co, Chancery House, 37/38 Chancery Lane, London WC2.
- Moate, Keith Alan, A.S.A.A., 1961; c/o Moate, Thorpe & Co, 40/41 St Andrew's Hill, London EC4.
- Mohammad, Syed, A.C.A., 1961; D/7 Ansari Road, Cosmopolitan Colony, Karachi-5, West Pakistan.
- Moir, Leslie George Stephen, A.C.A., 1961; 15 Victoria Mansions, Queens Club Gardens, London W14.
- Molyneux-Berry, Donald Bewes, A.C.A., 1961; 227 Surbiton Hill Park, Berrylands, Surbiton.
- Moorby, Timothy John, A.C.A., 1961; 19 Park Road, Ipswich.
- Moore, Dudley, A.C.A., 1961; 21 Sylvan Avenue, Sale, Cheshire.
- Moore, John Edward, A.C.A., 1961; 72 Whirlowdale Road, Sheffield 7.
- Moorhouse, Peter, B.Sc.(ECON.), A.C.A., 1961; 35 Buersill Avenue, Rochdale.
- Morgan, Brian John, B.Sc.(ECON.), A.C.A., 1961; with Crane, Christmas & Co, 70 Old Broad Street, London EC2.
- Morgan, David Clement, A.C.A., 1961; 58 Hurst Road, East Molesey, Surrey.
- Morgan, Mark Sidney Ernest, A.C.A., 1961; 18 Perry Street Gardens, Chislehurst, Kent.
- Morris, Anthony John, A.C.A., 1961; 12 East Gate, Stevenage, Herts.
- Morris, Michael, LL.B., A.C.A., 1961; 38 Langham Drive, Barley Lane, Chadwell Heath, Romford.
- Morris, Michael John, A.C.A., 1961; 92 Francklyn Gardens, Edgware, Middlesex.
- Morris, Peter Conyngham, A.C.A., 1961; 161 Wokingham Road, Reading.
- Morris, Raymond, A.C.A., 1961; 84 Oxford Street, Swansea.
- Morton, Clive Stuart, A.C.A., 1961; 10 Crosstead Avenue, Peddars Cross, Great Yarmouth, Norfolk.
- Moss, Colin, A.C.A., 1961; 26 Pendragon Road, Perry Barr, Birmingham 22B.
- Mowat, Robert William, A.C.A., 1961; 3 Linkside, Higher Bebbington, Wirral, Cheshire.
- Mullett, Clifford Charles, A.C.A., 1961; 63 Marshalls Drive, Romford, Essex.
- Murray, Anthony, A.C.A., 1961; 1 Robert Hall Street, Salford 5, Lancs.

- Murray, Brian Alexander, A.C.A., 1961; 16 Arnold Road, Dagenham, Essex.
- Murray, John Robey, A.C.A., 1961; 60 St James's Avenue, Hampton Hill, Middlesex.
- Muse, John Michael, A.C.A., 1961; 52 Douglas Road, Horfield, Bristol 7.
- Myddelton, David Roderic, A.C.A., 1961; 'Parkside', Henley-on-Thames, Oxon.
- Neale, Brian George, A.C.A., 1961; 14 Northgate, Oakham, Rutland.
- Neill, (Miss) Dorothy May Kilpatrick, A.C.A., 1961; 'Ruthven', Doods Park Road, Reigate, Surrey.
- Neill, John Whitley, A.C.A., 1961; Hatton Cottage, Hatton, near Warrington.
- §Nelson, Donald Alexander Robert, A.S.A.A., 1961; with Douglas, Low & Co, P.O. Box 2820, Johannesburg.
- Newberry, John Frederick, A.C.A., 1961; 4 Montpelier Road, Torquay.
- Newbury, Charles Albert Edward, A.C.A., 1961; 54 Boundary Road, Plaistow, London E13.
- Nicholson, Frank Edward Elliot, A.C.A., 1961; Central Hotel, Portland Street, Cheltenham.
- §Nightingale, John Frederick, A.S.A.A., 1961; 12 Chatsworth Road, Cheam, Surrey.
- Noye, Norman Charles, A.C.A., 1961; 21 Hanover Gardens, Barkingside, Essex.
- Nunn, Cecil James, A.C.A., 1961; 7 Maiden Lane, Crayford, Kent.
- O'Brien, John Francis, A.C.A., 1961; Blackberry Mead Farm, Dormansland, Lingfield, Surrey.
- O'Donoghue, Rodney Charles, A.C.A., 1961; 10 Shire Lane, Chorleywood, Herts.
- §Ogunmokun, Adekunle, A.S.A.A., 1961; with Knight Bland & Co, 3 Grosvenor Road, Ilford, Essex.
- O'Mahony, John Ivor, B.Sc.(ECON.), A.C.A., 1961; 5 Harrington Road, Brighton 6.
- Ong, Eng Kooi, A.C.A., 1961; 68 Kelawei Road, Penang, Malaya.
- Oram, Gavin Roberts, B.A., A.C.A., 1961; 'Thornholme', Brigg, Lincs.
- Ostler, John Ramsdell, B.A., A.C.A., 1961; 22 Battenberg Avenue, Portsmouth.
- Owen, Jeremy Nicholas, A.C.A., 1961; 16 Hastings Close, Polegate, Sussex.
- §Oyeleke, Yunusa Abioye, A.S.A.A., 1961; 56 Kyrle Road, Battersea, London SW11.
- Packer, James Nigel Lewis, A.C.A., 1961; 1 Park Avenue, Mossley Hill, Liverpool 18.
- Palin, Arthur, A.C.A., 1961; 129 Leyfield Road, West Derby, Liverpool 12.
- Parry, Geoffrey Allinson, A.C.A., 1961; 24 Bangor Road, Wallasey, Cheshire.
- Partington, John David, A.C.A., 1961; 44 Great Bushey Drive, Totteridge, London N20.
- Partridge, John Francis, A.C.A., 1961; 64 Beaufort Avenue, Ward End, Birmingham 34.
- Peacock, Graham Rex, A.C.A., 1961; 89 Streathbourne Road, London SW17.
- Peat, Trevor Cyril, A.C.A., 1961; 575 Whitton Avenue West, Greenford, Middlesex.
- Peattie, David Maxwell, A.C.A., 1961; 62 Northway, London NW11.
- Pemberton, John, A.C.A., 1961; 14 Clarendon Place, Leeds 2.
- Percival, Alan Lester, A.C.A., 1961; 3 Heathfield Avenue, Gatley, Cheshire.
- Perkin, Jack, A.C.A., 1961; 37 Woodside View, Leeds 4.
- Perry, Roy Sydney Wallace, B.Sc.(ECON.), A.C.A., 1961; 32 Laleham Avenue, Mill Hill, London NW7.
- Pharo, George William Lewis, B.Sc.(ECON.), A.C.A., 1961; 17 Wilbury Way, Hitchin, Herts.
- Philpott, Michael, A.C.A., 1961; Fairway House, Ashford Road, Faversham, Kent.
- Phipps, Timothy Normanby, A.C.A., 1961; 17 Pembridge Crescent, London W11.
- Pickard, John Anthony, A.C.A., 1961; 23 Wood Lane, Bramley, Leeds 13.
- Pikulski, Jan, A.C.A., 1961; 12 Ferncroft Avenue, London NW3.
- Pilgrim, John Brian Neil, A.C.A., 1961; 5 Barratt Lane, Attenborough, Notts.
- Pilling, Charles David, B.COM., A.C.A., 1961; 'Penrhyn', Sedgley Road West, Tipton, Staffs.
- Pink, Lawrence Martin, A.C.A., 1961; 147 Limsfield Road, Sanderstead, Surrey.
- Platts, Keith Gordon, A.C.A., 1961; 193 Edwin Road, Rainham, Gillingham, Kent.
- Plumb, John Edward, A.C.A., 1961; 'Long Ridings', Ashley, Market Drayton, Salop.
- Pocock, Peter Bernard, A.C.A., 1961; 35 Auckland Avenue, Cottingham Road, Hull.
- Pollard, Frank Selwyn Martin, A.C.A., 1961; 40 Dudleston Road, Little Sutton, Wirral.
- Pollard, Michael, A.C.A., 1961; 79 Cranley Gardens, Muswell Hill, London N10.
- Pont, Leonard Arthur, A.C.A., 1961; 173 Elm Walk, Grand Drive, Raynes Park, London SW20.
- Poon, Sze Leung, A.C.A., 1961; 75 Englewood Road, London SW12.
- Porritt, John David, A.C.A., 1961; 31 Victoria Terrace, School Street, Pudsey, Yorks.
- Porteous, David, A.C.A., 1961; Old Inn, Kirtlebridge, Lockerbie, Dumfries.
- Potter, John Arthur, A.C.A., 1961; 4A Camden Road, London NW1.
- Potter, Ronald Alfred, A.C.A., 1961; 11 Beresford Road, Harrow.
- Potter, Vincent Keen, A.C.A., 1961; Hever Castle, Edenbridge, Kent.
- Povey, John William, A.C.A., 1961; 4 Carnarvon Road, Reading.
- Prescott, Charles Raymond, A.C.A., 1961; 20 Thorley Lane, Bishop's Stortford, Herts.
- Preston, William Brian, A.C.A., 1961; 65 Torrington Way, Morden, Surrey.
- Price, Keith Eric, A.C.A., 1961; 'Spring Bank', Wistanstow, Craven Arms, Salop.
- Proctor, David Reginald, A.C.A., 1961; 45 Longford Crescent, Bradway, Sheffield.
- Purcell, David Leo Patrick, A.C.A., 1961; 20 Green Street, Chorleywood, Herts.
- Race, Eric, A.C.A., 1961; 169 Westbury Avenue, Southall, Middlesex.
- Radley, Howard Malcolm, A.C.A., 1961; 4 Broughton Avenue, Finchley, London N3.
- Raha, Sudhindra Nath, A.C.A., 1961; 65 Priory Road, London NW6.
- Rainford, Kenneth Gordon, A.C.A., 1961; 20 Escolme Drive, Greasby, Upton, Cheshire.
- Rajani, Prafulchandra Muljibhai, A.C.A., 1961; c/o Colaba Textile (Private) Ltd, P.O. Box 6092, Colaba, Bombay 5, India.
- Rands, Peter Geoffrey Graham, A.C.A., 1961; 67 High Street, Saffron Walden, Essex.
- Rankin, Brian Kenneth, A.C.A., 1961; 24 Wilton Road, Huyton, Liverpool.
- Ranwell, Martin Elliott, A.C.A., 1961; 'Kentish Croft', Shootersway, Berkhamsted, Herts.
- Rata, Derek Hugh Kinnaird, A.C.A., 1961; 'The Willows', Long Road, Comberton, Cambridge.
- Rawlinson, Terence, A.C.A., 1961; 41 St Aidens Road, North Hykeham, Lincoln.
- Ray, Mihir, A.C.A., 1961; 42 Ladbroke Grove, London W11.
- Read, Richard Michael Hodgson, B.Sc.(ENG.), A.C.A., 1961; Eastbrook Hall, Dinas Powis, Glam.
- Redshaw, Clifford, B.A., A.C.A., 1961; with Deloitte, Plender, Griffiths & Co, 39 Rue Cambon, Paris 1er.

- Rees, John Graham, A.C.A., 1961; 12 Maple Road, St Thomas, Exeter.
- Rees, Michael Sharrem, A.C.A., 1961; 21 West Rise, Llanishen, Cardiff.
- Reeve, (Miss) Pauline Ann, A.C.A., 1961; 61 Dorset Road, Merton Park, London SW19.
- Reeves, David Sidney, A.C.A., 1961; 26 Westwick Gardens, London W14.
- Regan, Laurence Peter, A.C.A., 1961; 27 Park Road, Brentwood, Essex.
- Reiss, Martin, B.Sc.(ECON.), A.C.A., 1961; 9 Meadway Close, London NW11.
- Reynolds, Anthony Robert, A.C.A., 1961; 18 Woodland Hill, Upper Norwood, London SW19.
- Richardson, Arthur George, A.C.A., 1961; 44 Essex Street, Reading.
- Richardson, (Miss) Jean, A.C.A., 1961; 59 Queensgate, Bolton.
- Richardson, John, A.C.A., 1961; 30 Southwood Drive, Surbiton, Surrey.
- Roberts, Michael Curig, A.C.A., 1961; 'Westwinds', Caldry Road, West Kirby, Wirral.
- Roberts, Paul, A.C.A., 1961; 'Llwyn Helyg', Portmadoc, Caerns.
- Roberts, William Morys, B.A., A.C.A., 1961; 61 Onslow Gardens, London SW7.
- Robinson, Brian Christopher Dennis, A.C.A., 1961; 99 Keene Way, Galleywood, Chelmsford.
- Rogers, Christopher Charles, B.A., A.C.A., 1961; 8 South Close, Muswell Hill Road, Highgate, London N6.
- Roiser, David Walter, A.C.A., 1961; 53 Capri Road, Addiscombe, Croydon, Surrey.
- Rose, John William, A.C.A., 1961; 16 Causeyware Road, Edmonton, London N9.
- Rosling, Edward Peter Charles, A.C.A., 1961; c/o Forest Thinnings Ltd, Greenhills, Tilford, Farnham, Surrey.
- Rosten, David, A.C.A., 1961; 89 Arnos Grove, Southgate, London N14.
- Rourke, John Nicholas, B.Sc.(ECON.), A.C.A., 1961; 38 West Hallowes, Mottingham, London SE9.
- Rouse, Ian Rudolph, A.C.A., 1961; 53 Goldsmith Avenue, Manor Park, London E12.
- Rowan, Thomas Stanley, LL.B., A.C.A., 1961; London House, Guilford Street, London WC1.
- Rozier, Michael Arthur, A.C.A., 1961; 41 Coniston Gardens, Kingsbury, London NW9.
- Rusling, Alan Henry, A.C.A., 1961; 6 Dorchester Road, Weybridge, Surrey.
- Ryan, Michael Francis, A.C.A., 1961; 'The Firs', West Street, Wimborne, Dorset.
- Ryan, Reginald Hugh, A.C.A., 1961; 170 Plumstead Common Road, Plumstead, London SE18.
- Sadler, James Anthony, A.C.A., 1961; 83 Viceroy Close, Bristol Road, Edgbaston, Birmingham 5.
- Salmon, Maurice, A.C.A., 1961; 207 Eastfield Road, Peterborough.
- Salt, Alan Charles, A.C.A., 1961; 25 Beacon Way, Banstead, Surrey.
- Sanders, Robert George Walter, A.C.A., 1961; 'The Roding', Tolgus Lane, Illogan Highway, Redruth, Cornwall.
- Sant, John Michael, A.C.A., 1961; 9 The Rise, Llanishen, Cardiff.
- Sara, Geoffrey William, A.C.A., 1961; 275 Burbury Street, Lozells, Birmingham 19.
- Saunders, Kenneth William John, A.C.A., 1961; 48 Bruce Castle Road, Tottenham, London N17.
- Saunter, Peter, A.C.A., 1961; with Saunter, Chappell & Co, 2 Clement's Inn, Strand, London WC2.
- Scammell, Stanley Thomas, A.C.A., 1961; 'East Knoyle', Salthill Road, Fishbourne, Chichester, Sussex.
- Schwartz, Anthony Alan, A.C.A., 1961; 23 St Ina Road, Heath, Cardiff.
- §Scotchmer, David William, A.S.A.A., 1961; 24 Cuthbert Harrowing House, Fann Street, London EC1.
- Scott, Eric Leslie, A.C.A., 1961; 192 Lonsdale Drive, Enfield, Middlesex.
- Scott, Michael, A.C.A., 1961; 4 Wish Road, Hove 3.
- Scott, Peter John, A.C.A., 1961; 27 Allderidge Avenue, Hull.
- Scott, Simon Lloyd, A.C.A., 1961; 23 Royston Park Road, Hatch End, Middlesex.
- Sealey, Colin Robert, A.C.A., 1961; 8 Thornfield Road, Middlesbrough.
- Sedman, Barrie, A.C.A., 1961; with Arthur Martyn, 39 Hainton Avenue, Grimsby.
- Seth, Shiv Kumar, A.C.A., 1961; C-194 Defence Colony, New Delhi, India.
- Shafto, Robert James, A.C.A., 1961; 87 West Hill Avenue, Epsom, Surrey.
- Shaikh, Zaki Ahmad, A.C.A., 1961; 51 Hartington Court, Lansdowne Way, London SW8.
- Shaw, Ian Richard, A.C.A., 1961; 'Nishat', Cavendish Avenue, Dore, Sheffield.
- Shaw, Ronald, A.C.A., 1961; 12 Junction Street South, Langley, Oldbury, Birmingham.
- §Sheldon, Jack Cecil, A.S.A.A., 1961; 23 Chandos Avenue, Southgate, London N14.
- Shi, Siau Seng, B.Sc.(ECON.), A.C.A., 1961; 20 Muswell Avenue, London N10.
- Shotton, Norman Bernard, A.C.A., 1961; 22 Fitzjohn's Avenue, London NW3.
- Siddall, Keith, Fearnley, A.C.A., 1961; 22 Fairway Grove, Moore Avenue, Bradford 6.
- Siddiqui, Khursheed Ahmad, B.Sc.(ECON.), A.C.A., 1961; 99 Foxbourne Road, Upper Tooting, London SW17.
- Siddle, Kenneth, B.Sc.(ECON.), A.C.A., 1961; c/o Eastwoods Ltd, Sandy Lane, Coventry.
- Sidney, Brian Leofric Morris, A.C.A., 1961; Haselor Farm House, Haselor, near Evesham.
- Sims, Hugh Greville, A.C.A., 1961; 219 Clapham Road, Lowestoft.
- Sinden, Michael Peter George, A.C.A., 1961; 49 Bryant Road, Strood, Rochester.
- Skelchy, Anthony Joseph, A.C.A., 1961; with Morley, Millson & Co, 3 Great James Street, London WC1.
- Skelton, Arthur Malcolm, A.C.A., 1961; 605 Holderness Road, Hull.
- Skingle, David Neville, A.C.A., 1961; 28 Glyn Road, Worcester Park, Surrey.
- Slade, John Ewart, B.A., A.C.A., 1961; 163 Charlton Road, Kingswood, Bristol.
- Smart, Brian Trevor, A.C.A., 1961; 84 Queen Street, Rushden, Northants.
- Smellie, Keith Graham, A.C.A., 1961; Old Bell Cottage, Tanworth-in-Arden, Warwicks.
- Smith, Alan, A.C.A., 1961; 9 Limetree Gardens, Bilbrook, Wolverhampton.
- Smith, Alfred Thomas, A.C.A., 1961; 463 St Helens Road, Bolton.
- Smith, Anthony Clive, A.C.A., 1961; The Lodge, Cote Drive, Westbury-on-Trym, Bristol.
- Smith, Brian Patrick, A.C.A., 1961; 9 Bruce Grove, Watford, Herts.
- Smith, (Miss) Eleanor, A.C.A., 1961; 247 Ganstead Lane, Bilton, near Hull.
- Smith, Mark Stephen, A.C.A., 1961; 18 Glebelands Avenue, South Woodford, London E18.
- Smith, Peter Donald, A.C.A., 1961; 18 Gorsty Hill Road, Halesowen, near Birmingham.
- Smith, Peter Harry, A.C.A., 1961; 34 Woodside View, Holmesfield, Sheffield.
- Snow, Geoffrey Bernard, A.C.A., 1961; 51 Boma Road, Trentham, Stoke-on-Trent.
- Snowden, David James, A.C.A., 1961; 30 Holme Lane, Tong Street, Bradford 4.
- Solomons, Kenneth Sidney, A.C.A., 1961; 5 Middleton Buildings, Langham Street, London W1.
- Somekh, (Miss) Valerie Ann, A.C.A., 1961; 78 North End House, Fitzjames Avenue, London W14.

- Sommerville, Andrew John Conyers, A.C.A., 1961; 'Beckford', Lewes Road, East Grinstead, Sussex.
- Sovin, Laurence Judah, A.C.A., 1961; 13 Woodward Avenue, Hendon, London NW4.
- Spain, William Graeme, A.C.A., 1961; 15 Beechwood Street, Sunderland.
- Spence, David, A.C.A., 1961; 20 Old Married Quarters, Chilwell, Notts.
- Spiby, Geoffrey Edward, A.C.A., 1961; 4 Lord Street, Dukinfield, Cheshire.
- Spiro, Leon, A.C.A., 1961; 160 Stradbroke Grove, Ilford, Essex.
- Spooner, Ian George, A.C.A., 1961; 27 The Island, Thames Ditton, Surrey.
- Sprawson, David Anthony, A.C.A., 1961; 109 Harrowby Lane, Grantham, Lincs.
- Staniland, John Joseph, A.C.A., 1961; 58 Derby Road, Swanwick, Derby.
- Starbuck, Gary, A.C.A., 1961; 'Bartleys', Barhatch Road, Cranleigh, Surrey.
- Stead, Peter Vernon, A.C.A., 1961; 9 Thornhill Close, Walton, near Wakefield.
- Steer, Mark Dudley, A.C.A., 1961; 31 Common Close, Horsell, Surrey.
- Stephens, Michael, A.C.A., 1961; 34 Windermere Road, Handforth, Cheshire.
- Stew, David John, A.C.A., 1961; 21 Woodstock Road, Witney, Oxon.
- Stewart, John Wyllie, B.A.(COM.), A.C.A., 1961; 22A Elm Road, Didsbury, Manchester 20.
- Stewart, Malcolm James King, A.C.A., 1961; 51 Coombe Lane, Bristol 9.
- Stirling, Alfred Patrick, A.C.A., 1961; 35 Kelsey Way, Beckenham, Kent.
- Stirling, John Ludovic, A.C.A., 1961; 35 Kelsey Way, Beckenham, Kent.
- Stone, Gwyn Rees, B.A., A.C.A., 1961; 46 Ninian Road, Cardiff.
- Stone, Ivor Michael, A.C.A., 1961; 26 Ridgeway, Newport, Mon.
- Stone, Peter Henry, A.C.A., 1961; 6 Ballabrooie Way, Douglas, Isle of Man.
- Stonehouse, Robert, B.A., A.C.A., 1961; 141 Atheldene Road, London SW18.
- Strand, Brian George, A.C.A., 1961; 80 Craigwell Avenue, Aylesbury, Bucks.
- Strange, Edward Arthur, A.C.A., 1961; 65 Palmerston Flats, City Garden Row, Islington, London N1.
- Strange, Michael Charles, A.C.A., 1961; 45 Moormead Road, Wroughton, near Swindon.
- §Sturgeon, Edwin d'Arcy, A.S.A.A., 1961; P.O. Box 73, Barberton, Eastern Transvaal, South Africa.
- Stuttaford, Timothy Foot, A.C.A., 1961; Pixton Cottage, Forest Row, Sussex.
- Sugarwhite, Jeffrey, A.C.A., 1961; 233 Evering Road, Clapton, London E5.
- Swales, Patrick Nigel Quentin, A.C.A., 1961; Marine House, Alnmouth, Northumberland.
- Tan, Chee Chuan, A.C.A., 1961; 20 Wrights Lane, Kensington, London W8.
- Taylor, Rodney John, A.C.A., 1961; 233 Joel Street, Eastcote, Pinner, Middlesex.
- Taylor, Eric William, A.C.A., 1961; 39 Clapgate Lane, Bartley Green, Birmingham 32.
- Taylor, Laurence, B.S.C(ECON.), A.C.A., 1961; 1 Park Grove, Edgware, Middlesex.
- Taylor, Martin Gibbeson, B.A., A.C.A., 1961; 21 Compayne Gardens, London NW6.
- Telling, Richard Christopher, A.C.A., 1961; 160 Dukes Avenue, New Malden, Surrey.
- Tetlow, Michael Gordon, A.C.A., 1961; 43 Ashwell Road, Heaton, Bradford 9.
- Thomas, Geraint Edward Bowen, A.C.A., 1961; 32 Grove Way, Esher, Surrey.
- §Thomson, Alan Woodland, A.S.A.A., 1961; Corner House Hotel, Burton Stone Lane, York.
- Thompson, George Edward, B.A., A.C.A., 1961; 8 Salisbury Place, South Shields, Co. Durham.
- Thomson, David, A.C.A., 1961; 2 Strathmore Gardens, Kensington, London W8.
- Thomson, (Miss) Wendy, A.C.A., 1961; with A. E. Hook & Co, 21A St Thomas's Square, Newport, Isle of Wight.
- Thornes, Frederick Colin, A.C.A., 1961; 38 Myers Lane, Bolton Junction, Bradford 2.
- Threlford, David Graham, A.C.A., 1961; Toynbee Hall, 28 Commercial Street, London E1.
- Tilbury, Douglas Keith, A.C.A., 1961; 8 Bruce Avenue, Worthing.
- Tillman, Edward Albert, A.C.A., 1961; 71 Thornton Farm Avenue, Rush Green, Romford, Essex.
- Tingle, Kenneth Ernest, A.C.A., 1961; 23 Carnarvon Avenue, Enfield, Middlesex.
- Tingley, Arthur Pache, A.C.A., 1961; 41 Marlpit Lane, Little Sutton, Sutton Coldfield, Warwicks.
- Tinker, George Barron, A.C.A., 1961; 16 Ring Road, Shadwell, Leeds 17.
- Tinwell, Gordon, A.C.A., 1961; 36 Collgardie Avenue, Highams Park, London E4.
- Tite, Alan Charles, A.C.A., 1961; 10 Welbeck Avenue, Sidcup, Kent.
- Tite, Anthony, A.C.A., 1961; 15 Silverstone Drive, Newton Heath, Manchester 10.
- Tizzard, Bryan Ralph, A.C.A., 1961; 31 Ashdene Road, Ashurst, Southampton.
- Todd, Clifford Newton, A.C.A., 1961; 117 Gallants Farm Road, East Barnet, Herts.
- Toff, Stuart, A.C.A., 1961; Flat 6, 47 Spencer Park, Wandsworth, London SW18.
- Tolson, Neville, A.C.A., 1961; 82 Far Banks, Honley, Huddersfield.
- Towers, Bernard, A.C.A., 1961; c/o Grattan Warehouses Ltd, Ingleby Road, Bradford 7.
- Town, Graham Victor, A.C.A., 1961; 6 Hartman Place, Bradford 9.
- Traynor, Brian John Patrick, A.C.A., 1961; 37 Plasturton Gardens, Cardiff.
- Trup, Cyril, B.SC.(ECON.), A.C.A., 1961; 10 Freston Park, Hendon Avenue, London N3.
- Tuke, John Ernest, A.C.A., 1961; 'Cregneish', Rombalds Lane, Ilkley.
- Turberfield, David, A.C.A., 1961; 3 Valley Road, Oldswinford, Stourbridge, Worcs.
- Turley, Raymond Cornelius, A.C.A., 1961; 133 Choumert Road, London SE15.
- Turnbull, John Colin, B.A., A.C.A., 1961; 17 Craigerne Road, London SE3.
- Turner, Donald Ernest, A.C.A., 1961; 4 Nevis Close, North Romford, Essex.
- Turner, The Hon. James Andrew, B.A., A.C.A., 1961; 2/3 Ovington Gardens, London SW3.
- Turner, Stanley Richard, A.C.A., 1961; 28 Fallowcourt Avenue, North Finchley, London N12.
- §Twen, Ernest Nissim, A.S.A.A., 1961; 10 Crossfield Road, London NW3.
- Tyrer, Peter Gerald, A.C.A., 1961; 50 Highview, Pinner, Middlesex.
- Tyson, David Richard, A.C.A., 1961; 'Carle Cross', Kirkby-in-Furness, Lancs.
- Tytler, Richard Morton, B.A., A.C.A., 1961; 32 Princess Street, Blackpool.
- Upshall, Brian Peter, A.C.A., 1961; 'Forest View', Elmhurst Road, West Moors, Dorset.
- Uttamot, Vivat, A.C.A., 1961; 134 Nakorn Sawan Road, Bangkok, Thailand.
- Vaidyanathan, Venkatachellam, A.C.A., 1961; No. 4, Lorong 1, Jalan Yahya Awal, Johore Bahru, Johore, Malaya.
- Vine, William Howard, A.C.A., 1961; 'Briarswood', Upper Kings Drive, Eastbourne.

- Waddicor, James Richard, A.C.A., 1961; 'Beechwood', Bromley Cross, Bolton.
- Waddington, John Rodney, A.C.A., 1961; 12 Langley Terrace, Slead Syke, Brighouse, Yorks.
- Wainwright, Brian Frank, A.C.A., 1961; 10 Lindfield Road, East Croydon.
- Waite, Peter, A.C.A., 1961; 61 Ryan Street, West Bowling, Bradford 5.
- Wakefield, Eldred David Englebright, A.C.A., 1961; 'Jordan Crest', Church Road, Tunbridge Wells, Kent.
- Walker, David, A.C.A., 1961; 1 Thornham Road, Sale, Cheshire.
- Wallace, Michael Moncrieff, A.C.A., 1961; 19 Cheviot View, Ponteland, Newcastle upon Tyne.
- Wallis, John Robert Anthony, A.C.A., 1961; 488 Spen Lane, Leeds 16.
- Warburton, Harold, A.S.A.A., 1961; 9 Tideswell Road, Hazel Grove, Stockport, Cheshire.
- Ward, Anthony Daniel, A.C.A., 1961; 'Hawkesley', Wrecchlesham, Farnham, Surrey.
- Warne, Paul Batten, A.C.A., 1961; with Binder, Hamlyn & Co, 121 Queen Victoria Street, London EC4.
- Watchorn, Ian Sidney, A.C.A., 1961; 41 Elmdale Road, London N13.
- Watkins, Philip George, M.A., A.C.A., 1961; 48 Eaton Terrace, London SW1.
- Watt, John, A.C.A., 1961; Valley House, Oversley Ford, Wilmslow, Cheshire.
- Watts, David, B.A., A.C.A., 1961; Moss Cottage, Lindford, near Bordon, Hants.
- Watts, Michael Alan, A.C.A., 1961; 26 Sandecotes Road, Parkstone, Poole, Dorset.
- Webb, Harry Wulstan, A.C.A., 1961; 3 Claremont Park, Finchley, London N3.
- Welch, Peter John, A.C.A., 1961; 28 Redacre Road, Wylde Green, Birmingham.
- Wellsbury, Martin William, A.C.A., 1961; 'Myrtle Grove', Hill Top, Brewood, Stafford.
- Wenban, John Kenneth Peter, A.C.A., 1961; 13 Waterloo Road, Peterborough.
- West, David William, A.C.A., 1961; 'The Croft', Great Longstone, near Bakewell, Derbyshire.
- Wheaton, (Mrs) Anne, A.C.A., 1961; 3 Northwick House, 1 St Johns Wood Road, London NW8.
- Whipp, John Albert, A.C.A., 1961; 5 Durham Terrace, Bayswater, London W2.
- White, (Miss) Margaret Craine, A.C.A., 1961; 21 Porth-y-Castell, Barry, Glam.
- White, Paul Edward Oakley, A.C.A., 1961; 449 Winchester Road, Bassett, Southampton.
- Wilcher, Christopher David, A.C.A., 1961; 'Bramhall', Southway, Ilkley, Yorks.
- Wilden, Bruce Martin, A.C.A., 1961; c/o Albert A. Bendon & Co, 14 Finsbury Circus, London EC2.
- Wilkinson, Alec John, A.C.A., 1961; with Cooper Brothers & Co, P.O. Box 30158, Nairobi, Kenya.
- Williams, Alwyne Graham, B.A.(ECON.), A.C.A., 1961; with Graham Paul & Co, 10 Dunraven Place, Bridgend, Glam.
- Williams, Arthur Barrie, A.S.A.A., 1961; 6 Cefn Carnau Road, Heath, Cardiff.
- Williams, David Anthony, A.C.A., 1961; 'Rough Wood', Farnham Lane, Haslemere, Surrey.
- Williams, David John, A.C.A., 1961; 14 Milton Road, Newport, Mon.
- Williams, Peter Michael, A.C.A., 1961; Westwood, Icklingham Road, Cobham, Surrey.
- Williams, Philip Roy, A.C.A., 1961; 7 Church Street, Knighton, Radnorshire.
- Williamson, Robert Raymond, A.C.A., 1961; 22 Dean Terrace, South Shields, Co. Durham.
- Willis, Donald Henderson, A.C.A., 1961; 77 Station Avenue North, Fence Houses, Houghton-le-Spring, Co. Durham.
- Willis, Roger Edward, A.C.A., 1961; 21 Beatrice Avenue, Norbury, London SW16.
- Wilson, Robert Ley, A.C.A., 1961; 38 Argyll Road, London W8.
- Winkler, John Lewis, A.C.A., 1961; 45 St Oswald's Road, Norbury, London SW16.
- Witts, Allan Gavin, B.COM., A.C.A., 1961; 4 Chevet Lane, Sandal, Wakefield.
- Wood, Raymond Kenneth, A.C.A., 1961; 66 Pear Tree Drive, Great Barr, Birmingham 22A.
- Woodford, Kenneth Robert, A.C.A., 1961; Flat 2, 'Moss-giel', Regent Road, Altrincham, Cheshire.
- Woods, Martin Walter, A.C.A., 1961; 70 Salterton Road, Exmouth.
- Wynn, Anthony William, A.C.A., 1961; 91 Green Lanes, Palmer's Green, London N13.
- Wynniatt-Husey, Ralph Ernest, A.C.A., 1961; 50 Braemore Road, Hove.
- Yazgi, Robert Joseph, B.S.C.(ECON.), A.C.A., 1961; 6 Chesham Street, London SW1.
- Yeeles, Michael Trannack, A.C.A., 1961; Glen Hurst, Aydon Road, Corbridge-on-Tyne, Northumberland.
- Yelland, Allen Percy, A.C.A., 1961; with James Worley & Sons, 16 Union Court, Old Broad Street, London EC2.
- You, Norman, A.C.A., 1961; 93 Manor Road, Great Crosby, Liverpool 23.
- Youds, Robert William Johnston, LL.B., A.C.A., 1961; 7 Hoyle Road, Hoylelake, Cheshire.
- Young, Robert Leonard Michael, A.C.A., 1961; 78 Westbury Ave, Wood Green, London N22.
- Yuen, Daniel Shu Mun, A.C.A., 1961; 57 Disraeli Road, London SW15.
- Yule, Andrew Herlyn, A.C.A., 1961; 88 Longmore Road, Shirley, Solihull, Warwicks.
- Zaum, Bruno, A.C.A., 1961; with Peat, Marwick, Mitchell & Co, 20 Rue Louis-le-Grand, Paris 2e.

Fellowship

The Council acceded to applications from eight associates to become fellows under clause 6 of the supplemental Royal Charter.

Incorporated Accountant Member Becoming an Associate

The Council acceded to an application from the following incorporated accountant member for election as associate under clause 6 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter:

Alcock, James Alfred, A.S.A.A., 1958; with Peat, Marwick Mitchell & Co, 11 Ironmonger Lane, London EC2.

Members Commencing to Practice

The Council received notice that the following members had commenced to practise:

Aldred, Douglas Joseph, A.C.A., 1958; Harold Moon & Taylor, 201-209 Westminster Buildings, High Street, Doncaster.

Austin, John Haldane, A.C.A., 1962; 128 Bridgwater Drive, Westcliff-on-Sea, Essex.

Bannister, Samuel Albert Gollidge, A.C.A., 1955; Leach, Bright & Co, Bateman House, 232 High Street, Guildford, Surrey, and at London and Richmond.

Barrett, Arthur Robin, A.C.A., 1959; †Thomas Bourne & Co, Abbey Chambers, 40 Abbey Street, Nuneaton.

Bazell, Robert Hugh, A.C.A., 1956; Welch & Foley, St Stephens' House, Westminster, London W1.

Broadwell, Alan, A.C.A., 1961; *Holyland & Co, Royal Chambers, 31 Market Place, Leicester.

Brown, John Osborne, LL.B., A.C.A., 1958; Blakemore, Elgar & Co, 124 Chancery Lane, London WC2.

Browne, Michael John, A.C.A., 1955; Lewin, Browne & Co, 34 Watling Street, Radlett, Herts, and at London.

Copeland, John Sinclair, A.C.A., 1956; Russell Tillett & Co, 18 St Swithin's Lane, London EC4, and at Bradford and Manchester.

Cotton, Brian John Powell, A.C.A., 1958; Hesketh, Hardy, Hirshfield & Co, Dudley Hardesty & Co, Ansell, Roberts & Co, and Leslie C. Stewart, Hughes & Co, Norwich House, 13 Southampton Place, London WC1, and at Manchester.

Cook, John Arthur, A.C.A., 1961; 33 Ironside House, Kingsmead Estate, Homerton, London E9.

Cullen, William, M.A., A.C.A., 1952; 44 Upper Richmond Road West, London SW14.

Daniels, Frank Albert, A.C.A., 1957; 33 Cameron Road, Walsall.

Dodridge, Dennis Olphert, A.C.A., 1956; A. C. Brading & Co, 26 Northbrook Street, Newbury, and at Hungerford.

Ellerby, Brian, A.C.A., 1952; Henry M. Turner, The Guildhall, Framlingham, Woodbridge, Suffolk.

Emms, Robert James, A.C.A., 1957; 6-8 Clement's Lane, Lombard Street, London EC4.

Evans, Thomas John, F.C.A., 1939; 14 Baron Road, Penarth, Glam.

Foster, Brian Edgar, A.C.A., 1951; Brian Foster & Co, High Street, Goring-on-Thames, Oxon, and at Pangbourne.

Goddard, Raymond Haynes, A.C.A., 1956; Blakemore, Elgar & Co, 124 Chancery Lane, London WC2.

Griffiths, John Alan, F.C.A., 1946; Blakemore, Elgar & Co, 124 Chancery Lane, London WC2.

Guilfoyle, Thomas, A.C.A., 1952; Friend, Ellis & Co, 44 Chepstow Road, Newport, Mon.

Hanham, John Francis, F.C.A., 1946; Blakemore, Elgar & Co, 124 Chancery Lane, London WC2.

Hanks, Kenneth, A.C.A., 1960; 22 Ridgeway Crescent, Orpington, Kent.

Harris, John, F.C.A., 1931; A. E. Sherrey, Garland & Co, 36 Waterloo Street, Birmingham 2.

Hayes, Edward George, A.C.A., 1953; Toy, Campbell & Co, 10-13 Dominion Street, London EC2, and at Hampton.

Hedger, Joseph Askew, A.C.A., 1953; Reeves & Young, 39-40 St Margaret's Street, Canterbury, and at Whitstable.

Hills, John Wakefield, M.A., A.C.A., 1957; Annan, Impey, Morrish & Co, 21 Ironmonger Lane, London EC2.

Horton, Peter, A.C.A., 1956; Keith Moore & Co, 24 Queen Square, Bath.

Howling, Richard John, A.C.A., 1956; †Bird, Potter & Macrae, 28 Victoria Street, Westminster, London SW1.

Huggert, Derek William Crease, A.C.A., 1960; 61 Amberley Road, London N13.

Isbell, Clive Robert, A.C.A., 1959; Roby, Isbell & Co, 5 Neale Street, Ipswich.

Jones, James Donald, F.C.A., 1947; *Potter & Pollard, 1A Cardigan Road, Winton, Bournemouth, and at Moordown.

Jones, John Bannister, B.COM., A.C.A., 1954; Fitzpatrick, Graham & Co, 5 Norfolk Street, Manchester 2, and at Chapel-en-le-Frith and Macclesfield.

Jordan, John Oliver Philip, A.C.A., 1958; Gledhill & Jordan, 35 Southgate Street, Winchester.

Lee, Kenneth William, A.C.A., 1960; F. G. Lee & Co, Bank Chambers, Market Place, Ilkerton, Derbyshire.

McLaren, Arthur Victor James, F.C.A., 1940; Blakemore, Elgar & Co, 124 Chancery Lane, London WC2.

Main, Donald Ian, F.C.A., 1955; 1949; †Pannell, Crewdson & Hardy, 9 Basinghall Street, London EC2; also at Accra and Kumasi, Pannell, Crewdson & Hardy.

Mann, Timothy Michael, A.C.A., 1961; Russell Mann & Co, Overstone House, Elvaston Road, Hexham, Northumberland.

Marks, Martin, A.C.A., 1955; Vice, Marks & Co, 46 Park Square East, Leeds 1.

Millard, Albert Almor, F.C.A., 1948; C. J. Ryland & Co, 82A Regent Street, Weston-super-Mare, and at Bristol.

Piggott, Dudley Frederick, A.C.A., 1958; Redhead, Piggott & Co, 45 Butts Green Road, Hornchurch, Essex.

Ratledge, Martin Richard, A.C.A., 1959; *Barrow, Ratledge & Co, 4 The Quadrant, Coventry.

Richards, Ivor Bryan, B.SC.(ECON.), A.C.A., 1961; 137 Lauderdale Mansions, Maida Vale, London W9.

Robinson, Robert Barrie, A.C.A., 1956; Ralph Holmes & Co, 431 Meanwood Road, Leeds 7.

Sassoon, Ronald Joseph, A.C.A., 1960; 21 Cavendish Drive, Edgware, Middlesex.

Smith, Michael John, A.C.A., 1958; *Davis & Co, 22 Dunstable Road, Luton, and at Dunstable and London.

Smith, Philip David, A.C.A., 1961; *Stanley F. Smith & Co, 78 Queen Victoria Street, London EC4.

Solomon, Horace John, A.C.A., 1952; Bournier, Bullock & Co, 4 Tregarne Terrace, St Austell, Cornwall, and at Exeter.

Stockwell, George, A.C.A., 1960; Gavin Miller & Chilton, 4 Museum Place, Cardiff.

Thorogood, Frank Arnold, A.C.A., 1961; 52 Seymour Road, Chingford, London E4.

Waddington, Nicholas, F.C.A., 1934; Proctor & Proctor, 43 Westgate, Burnley, and at Manchester and Nelson.

Welsh, Ian William, M.A., A.C.A., 1960; Impey, Cudworth & Co, 48 Calthorpe Road, Edgbaston, Birmingham 15, and at London.

Woodhead, Albert Trevor, A.C.A., 1952; 84 Cawlersley Lane, Cawlersley, Huddersfield.

Young, Derek Roy, A.C.A., 1961; Derek R. Young & Co, 201 Beoley Road, Redditch.

Re-admissions to Membership

Subject to payment of the amounts required by the Council, three former members of the Institute were re-admitted to membership under clause 23 of the supplemental Royal Charter and one under bye-law 38. One application under clause 23 refused.

It was reported to the Council that the following re-admissions made at the Council meetings on July 5th and August 2nd, 1961, subject to payment of the amounts required, had become effective:

Forrester, John Digby, 160 Jarvis Street, Toronto 2, Ontario, Canada.

Whitbourn, Martin Samuel, c/o Bering Engineering Ltd, Doman Road, Camberley, Surrey.

Wimbourne, Anthony Kenneth Jack, with Tansley Witt & Co, 22/24 Ely Place, London EC1.

Change of Name

The Secretary reported that the following changes of name have been made in the Institute's records:

Pizzey, Denis Alfred to Palmer, Denis Alfred.

Strange, Trevor Lee to Stronge, Trevor Lee.

Smith, Frederick William to Cavendish-Smith, Frederick William.

Berkowitz, David Maurice to Berke, David Maurice.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Norman Acomb, F.C.A., Keighley.

„ Ralph Ernest Atkinson, F.C.A., Orpington.

„ Francis Vernon Baxter, F.C.A., Southend-on-Sea.

„ Joseph Aloysius Bond, F.C.A., Southport.

„ Frank Albert Braddock, F.C.A., Hanley.

„ Wallace Howard Castle, F.C.A., Birmingham.

Mr William Horsfall Clifford, F.C.A., Southwell, Notts.
 „ Michael Pickles Cryer, F.C.A., Keighley.
 „ Wilfrid Archibald Davies, F.C.A., London.
 „ Frank Walter Flint, F.C.A., Nottingham.
 „ Vernon William Grosvenor, C.B.E., LL.B., J.P., F.C.A., Birmingham.
 „ William Hare, F.C.A., Blackburn.
 „ Jacob Frank Harrison, F.C.A., Liverpool.
 „ Reginald Hayward, F.C.A., Stockport.
 „ Arthur Charles Heyward, F.C.A., London.
 „ Oliver Lloyd Hurst, F.S.A.A., Kidsgrove, Staffs.
 „ William Robert Jones, F.C.A., Haverfordwest.
 „ John Kennerley, F.C.A., Toronto.
 „ Wilfred Griffith King, F.C.A., Bognor Regis.
 „ Edward Rundle Lester, F.C.A., London.
 „ Hubert John Messenger, F.C.A., South Harrow.

Mr Montague Harry Moody, F.C.A., London.
 „ Walter Nancollis, A.C.A., Milan.
 „ Cecil Ernest Neville, F.C.A., London.
 „ Edward Lake Paske, O.B.E., F.C.A., London.
 „ Norman Paterson, F.C.A., Wallasey.
 „ William Brooke Phillips, F.C.A., Wilmslow.
 „ David Beresford Pratt, F.C.A., Johannesburg.
 „ George William Smith, F.C.A., Huddersfield.
 „ Thomas Ryan, F.C.A., London.
 „ Charles McDonald Sinclair, F.C.A., Newcastle upon Tyne.
 „ Irving Noel Thornley Stoker, F.C.A., London.
 „ Arthur Thwaites, F.C.A., Abegele.
 „ Walter Tomlinson, A.C.A., Bradford.
 „ Harold Paton Walters, F.C.A., London.
 „ Walter William Warner, F.C.A., London.
 „ Joseph Edwin Wilmot, F.C.A., West Horsley.

PRESENTATION OF PRIZES

Following the meeting of the Council on October 4th, the President formally presented prizes and certificates of merit to the successful candidates in the May 1961 examinations who were able to attend. Relatives and friends of prizewinners were invited to the ceremony which was held in the Oak Hall at Moorgate Place and was followed by tea.

Before presenting the prizes, Mr Granger said:

Ladies and gentlemen, I think before we start the proceedings it might be a good thing if I explained who is on the platform with me. On the right is the Chairman of the Examination Committee, Mr Densem, Mr Percy Carpenter, Vice-President of the Institute; I am the President of the Institute, Mr House, a past President who in his time has been Chairman of the Examination Committee; and Mr Allen who is one of the Under-Secretaries of the Institute.

As you can imagine, there are various experiences that you go through if you are President of this Institute; some are most enjoyable and some are not quite so enjoyable. This is one of the very enjoyable ones and on behalf of the Council of the Institute I would like to welcome all the prizewinners here and also their relatives as well.

First of all, it falls to my lot to congratulate the prizewinners. They have obviously made a very good start in their professional careers. To those who

have passed the Final, I would suggest that you should spend at least another year or two on the practising side of the profession before you make your final decision as to whether you want to remain there or whether you want to go into industry, abroad, anywhere you like. There is one thing you might remember too, and that is that from now onwards you will not only be dealing with figures; you will also be dealing more and more with people, and people are very important, so make sure that you learn as much as you can about your fellow men as life goes on.

The Intermediate prizewinners obviously are at the half-way stage – and they do not look as though they are going to have very much trouble with the Final when it comes. So I hope that when that time does come my successor, whoever he may be, will have the pleasure of welcoming you as Final prizewinners.

Now, this is not amongst my terms of reference, but it may pay the prizewinners to remember that they do have parents – most of them – and the parents have looked after them and seen that they are housed and fed, go to bed at the right time and so on; and while I do not want to stress how important one side of the family is against the other, I rather think there are times when the mothers deserve a word of credit. So when you go back it might pay you just to remember this.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on August 2nd, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Cecil John Thrift, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that (a) he failed to pay the subscription payable by him under bye-law 42 in respect of the year 1961 for four months after the same had become due; and (b) he failed to ensure that sufficient funds were available to meet the cheque drawn in favour of the Institute in payment of the said subscription; and (c) he failed to reply to two letters addressed to him by the Accountant of the Institute,

so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Cecil John Thrift, F.C.A., had been proved under all headings and the Committee ordered that Cecil John Thrift, F.C.A., of 41 Bellamy Drive, Stanmore, Middlesex, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a Fellow of the Institute had been guilty of acts or defaults discreditable to a member within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal

Charter in that he signed the Accountants' Certificates required by Section 1 of the Solicitors Act, 1941, relating to the practice of a solicitor for four accounting periods which he knew or which he ought to have known were not correct, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and the Committee ordered that the member be reprimanded but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a Fellow

of the Institute had been guilty of acts or defaults discreditable to a member within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that (a) he failed to pay the subscription payable by him under bye-law 42 in respect of the year 1961 for four months after the same had become due and (b) he failed to ensure that sufficient funds were available to meet the cheque drawn in favour of the Institute in payment of the subscription, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved under both headings and the Committee ordered that the member be admonished but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

FINDING AND DECISION OF THE APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on September 4th, 1961.

The Appeal Committee heard an appeal against the Finding and Decision of the Disciplinary Committee of the Council of the Institute upon a formal complaint preferred by the Investigation Committee of the Council to the Disciplinary Committee that Roy Jack Climpson, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that he failed within a reasonable time or at all to agree and settle the amount due to a widow in respect of an agreement made by him

with her late husband which he had agreed to do in the course of previous proceedings before the Disciplinary Committee of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee affirmed the Finding of the Disciplinary Committee that the formal complaint against Roy Jack Climpson, F.C.A., had been proved and the Committee affirmed the Decision of the Disciplinary Committee that Roy Jack Climpson, F.C.A., of 21A High Street, Teddington, Middlesex, be reprimanded.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

- The Art of Investment; by A. G. Ellinger. 1961. (Bowes & Bowes, 18s.)
- Auditing Principles: Objectives; Procedures; Working Papers; by H. F. Stettler: second edition. Englewood Cliffs, N.J. 1961. (Prentice-Hall, 45s.)
- Bid for Power; by G. Bull and A. Vice: third edition. 1961. (Elek Books, 35s.)
- The Birmingham Post & Mail Ltd: nominal ledger accounts code numbers. (Birmingham Post & Mail Ltd.) [n.d.] (Presented.)
- The Book of The City: edited by I. Norrie. 1961. (High Hill Books, 30s.)
- British Public Service Administration; by E. N. Gladden. 1961. (Staples, 35s.)
- Classification of Working Expenses. (London Transport Executive.) 1958. (Presented.)
- The De Havilland Aircraft Company Ltd: nominal ledger code numbers. (De Havilland Aircraft Company Ltd.) 1960. (Presented.)
- The Economics of Wages and the distribution of income; by D. J. Robertson. 1961. (Macmillan, 21s.)
- The English Legal System; by A. K. R. Kiralfy: third edition. 1960. (Sweet & Maxwell, 42s.)
- Essays in the Economic and Social History of Tudor and Stuart England; edited by P. J. Fisher. 1961. (C.U.P., 30s.)
- Executive Control - The Catalyst; by W. T. Jerome. New York. 1961. (Wiley, 56s.)
- Executors' Law and Accounts; by D. F. De L'H. Ranking, E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A.; twentieth edition by H. A. R. J. Wilson, F.C.A. 1961. (H.F.L., presented, 40s.)
- Family Provision Practice; by S. G. Maurice: second edition. 1961. (Solicitors Law Stationery Society, 15s.)
- George Goodman Ltd: Codes of Accounts and Cost Centres. (George Goodman Ltd.) 1961. (Presented.)
- Guest, Keen & Nettlefolds (Midlands) Ltd: screw division. (Guest, Keen & Nettlefolds (Midlands) Ltd.) [n.d.] (Presented.)
- Income Tax Act Annotated . . . ; by H. H. Stikeman. Toronto. 1961. (De Boo, 63s.)
- The Law of Agency; by R. Powell: second edition. 1961. (Pitman, 60s.)
- Master of Others; by N. Tronchin-James. 1961. (Cassell, 21s.)
- Mayne and McGregor on Damages; by J. D. Mayne: twelfth edition by H. McGregor. 1961. (Sweet & Maxwell, 150s.)
- The Philosophy of Auditing; by R. K. Mautz and H. A. Sharat. (Menasha, Wisconsin.) 1961. (American Accounting Association, presented by the publishers.)
- Smith's Taxation; sixty-fifth edition by A. E. Bevan. 1961. (Advertiser Press, 17s 6d.)
- Standard Boardroom Practice. (Institute of Directors.) 1961. (I. of D., 12s 6d.)
- The Steel Industry 1938-1959: a study in competition and planning; by D. Burn. Cambridge. 1961. (C.U.P., 80s.)
- Tax Saving for the Business Man; by H. Toch. 1961. (Museum Press, 18s.)
- The Valuation of Company Shares and Businesses; by A. V. Adamson: third edition. Sydney. (1961. (Law Book Co of Australasia, 45s.)

* This book has been presented to all District Society Libraries under the grant of books scheme.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS BASIL HALLETT & Co, Chartered Accountants, of Staple House, 51-52 Chancery Lane, London WC2, MESSRS H. D. BLAKELEY LAUGHLIN & Co, Chartered Accountants, of Finsbury House, 22 Bloomfield Street, London EC2, and MESSRS CHARLES G. CLARK & Co, Chartered Accountants, of the same address, announce that they have amalgamated their practices as from October 1st, 1961, the combined practices being carried on in enlarged premises at 38 Finsbury Square, London EC2, under the style of HALLETT, LAUGHLIN, CLARK & Co, Chartered Accountants.

MESSRS WOOD, ALBERY & Co, Chartered Accountants, of 40-42 Cophall Avenue, London EC2, announce that the senior partner, Mr H. E. MONSON, F.C.A., has retired from the partnership. The practice will be continued by the remaining partners under the same name and Mr MONSON will be available to the firm in connection with the work with which he has been identified and also in a consultative capacity.

MESSRS BINDER, HAMLYN & Co, Chartered Accountants, of 121 Queen Victoria Street, London EC4, announce that they have appointed MESSRS AKINTOLA WILLIAMS & Co, Chartered and Incorporated Accountants, of 134-136 Broad Street, Lagos, as their representatives in Nigeria, and that MESSRS AKINTOLA WILLIAMS & Co have appointed them as their representatives in the United Kingdom.

MESSRS BURSTON, DIMMOCK & Co, Chartered Accountants of 5 King Square, Bridgwater, announce that as from October 2nd, 1961, they have admitted into partnership in respect of their Bridgwater practice, Mr GEOFFREY H. WATTS, A.C.A., who has been a member of their staff for the past eleven years.

MESSRS BEDELL & BLAIR, Chartered Accountants, of 79 Mosley Street, Manchester 2, announce that as from October 1st, 1961, they have taken into partnership Mr BRIAN TOMLINSON, A.C.A., who has been a member of the staff for some years. The firm will continue as previously under the style of BEDALL & BLAIR.

The partners of Messrs CARTER, SON & WHITE, Chartered Accountants, of Craven House, 16 Northumberland Avenue, London WC2, announce with regret the death on September 29th, of their senior partner, Mr WILFRID ARCHIBALD DAVIES, F.C.A. Mr DAVIES became a partner in 1930 and remained in practice until his death. The practice will be continued under the same name by the remaining partners.

MESSRS ANNAN DEXTER & Co, Chartered Accountants, of 21 Ironmonger Lane, London EC2, announce

that as from October 1st, 1961, they have taken into partnership Mr PHILIP JOHN HUGHES, A.C.A., who has been a member of their staff for several years after having served his articles with them.

MESSRS DICKSON, MIDDLETON & Co, Chartered Accountants, of 20 Barnton Street, Stirling, announce that Mr JOSEPH DICKSON, C.A., a founder member of the firm, retired from the firm on giving up practice on September 30th, 1961. The practice is being continued by the remaining partners and the firm name remains unchanged.

MR KENNETH GORDON LYON, F.C.A., practising as LOUIS NICHOLAS & Co, Chartered Accountants, at 19 Castle Street, Liverpool 2, announces that, with effect from September 30th, 1961, he has taken into partnership his son, Mr MICHAEL GORDON LYON, A.C.A. He has also taken into partnership Mr HAROLD GEORGE BAYLEY, F.C.A., Mr JOHN ROBERTSON PHILP, F.C.A., and Mr JOHN BRUCE DUFF LOWE, A.C.A., who have been senior members of his staff for many years. The style of the firm remains unchanged.

MESSRS GUNDRY, COLE & Co, Chartered Accountants, announce that their address is now Brewers' Hall, Aldermanbury Square, London EC2. Telephone: Monarch 8411.

MESSRS HOPE, AGAR & Co, Chartered Accountants, of Pinners Hall, Austin Friars, London EC2, announce the retirement from the firm and from active practice on September 30th, 1961, of Mr FRANK HENRY AGAR, F.C.A. Mr AGAR has been in practice with the firm for forty-two years and has been senior partner since August 1939. He will remain in close consultation with the continuing partners and will retain his directorships and certain other offices. Mr ANTHONY JOHN HOLLIS, A.C.A., who was first associated with the firm in 1947, has been admitted to the partnership as from October 1st, 1961. The firm's name will remain unchanged.

MR H. AUSTRAL RYLEY, F.C.A., and Mr HUGH G. PINNER, F.C.A., announce that the partnership carried on between them under the style of PINNER, RYLEY & Co, Chartered Accountants, has been dissolved by mutual agreement, as from October 1st, 1961. From that date Mr H. AUSTRAL RYLEY continues to practice from Central Chambers, Bearwood Road, Smethwick 41, telephone: Bearwood 2262-3, under the style of AUSTRAL RYLEY & Co. He will be joined by his son, Mr C. B. RYLEY, A.C.A., and also by Mr A. T. PITT, A.C.A., both of whom he hopes to take into partnership. Mr HUGH G. PINNER will be joined in partnership by Mr TREVOR J. DARLINGTON, A.C.A., and

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the practice will be carried on under the style of PINNER, DARLINGTON & Co, from the following addresses: Midland Bank Chambers, 28 Birmingham Street, Oldbury, Birmingham, telephone Broadwell 3039; 14, Prospect Hill, Redditch, Worcestershire, telephone Redditch 2153; 75 Bath Road, Wolverhampton, telephone Wolverhampton 22049, and in addition an office will be maintained at 367 Oldbury Road, Smethwick 40, telephone Smethwick 2523.

MESSRS TURK, BRANDES & Co, Chartered Accountants, of 3-4 Clement's Inn, Strand, London WC2, announce that Mr MERTON S. ZATMAN, A.C.A., has been admitted as a partner in the firm as from October 1st, 1961.

MESSRS SHEEN, STICKLAND & Co, Accountants, of Alton, Hants, and Farnham, Surrey, announce that they have been joined in partnership by Mr JOHN MACINTOSH, C.A. The name of the firm remains unchanged.

Appointments

Mr T. E. Gambling, B.COM., A.C.A., of the Department of Accounting and Administration in the University of Birmingham, has been appointed Lecturer in Accounting at the University.

Mr Bernard C. Cranwell, A.I.M.T.A., A.C.C.S., formerly in the County Treasurer's Department, Nottinghamshire, has been appointed deputy finance officer, University of Liverpool as from October 16th, 1961.

Mr E. W. Argent, A.C.A., accountant of Hastings and Thanet Building Society, will become secretary and chief accountant of the Society on January 1st, 1962.

Mr R. N. Rowlatt, A.C.A., has been appointed secretary of Lodge-Cottrell Ltd.

Mr H. E. Hill, F.C.A., has been appointed an additional director of Anglo-Eastern Finance Corporation Ltd.

Mr Harold F. Joy, F.C.A., deputy chairman of J. A. Devenish & Co Ltd and Devenish Redruth Brewery Ltd, has been appointed deputy chairman of Devenish & Groves Ltd.

Mr E. P. J. Lurch, F.C.A., has been appointed chief accountant to the Port of London Authority.

Mr A. M. Simmers, F.C.A., has been appointed secretary and controller of administration of Vickers Ltd.

Mr Denison Turner, F.C.A., has been appointed a director of Walker & Martin Ltd, and Mr Geoffrey Butterworth, B.A.(COM.), A.C.A., has been appointed secretary of the company.

Mr Ian T. Morrow, C.A., F.C.W.A., A.T.I.I., has been appointed a director of H. Clarkson & Co Ltd.

Mr N. Poyner, F.C.W.A., formerly deputy financial controller of the Viscose Division of Courtaulds Ltd, has been appointed chief cost accountant to The General Electric Co Ltd.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Annual Meeting 1962

The Annual Meeting of The Institute of Chartered Accountants in England and Wales in 1962 will be held at 2 p.m. on Thursday, May 3rd, and not on Wednesday, May 2nd, which would normally have been the date of the meeting.

OBITUARY

John Kilpatrick Emberson, A.C.A.

It is with regret that we record the death at his home in Belfast, of Mr John Kilpatrick Emberson, A.C.A., secretary of the Belfast Savings Bank.

Mr Emberson, who served his articles with Messrs Craig, Gardner & Co, Chartered Accountants, of Belfast, was admitted an Associate of The Institute of Chartered Accountants in Ireland in 1932.

He was appointed accountant to the Belfast Savings Bank in 1934 and became secretary of the Bank in 1951. From 1947 to 1950, Mr Emberson served as secretary of the Belfast Society of Chartered Accountants and was chairman in 1949.

Cecil Ernest Neville, F.C.A.

We have learned with regret of the sudden death on September 20th, of Mr Cecil Ernest Neville, F.C.A., a partner in the firm of C. Neville & Co, Chartered Accountants, of London, and eldest son of the senior partner Mr C. Neville, F.C.A.

Mr Neville served his articles with Messrs Cooper Brothers & Co, and was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1935.

George William Smith, F.C.A.

It is with regret that we record the death on October 1st, of Mr George William Smith, F.C.A., senior partner in the firm of Smith & Garton, Chartered Accountants, of Huddersfield.

Admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1908, Mr Smith was elected to fellowship in 1919. He was the first chairman of the Huddersfield Group of The Leeds, Bradford and District Society of Chartered Accountants, which was formed in 1952.

C. W. BOYCE PRIZE FUND

Many friends of the late Charles W. Boyce have contributed to the fund inaugurated in his name so that there may be some permanent memorial to him as a record of the gratitude his many friends in Bradford feel for his long life of service to the profession. Mr Boyce was a member of the Council of The Institute of Chartered Accountants in England and Wales from 1935 to 1957 and was President for the year 1951-52.

The C. W. Boyce Prize which will be of the value of

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£7 7s will be awarded half-yearly at the Final Examination of the Institute to the student of The Bradford and District Chartered Accountant Students' Society who attains the best results in the examination as a whole.

NATIONAL INSURANCE BENEFITS

A revised edition of the booklet *How When and Where to Claim Benefit* has been issued by the Ministry of Pensions and National Insurance. The booklet is a useful guide in note form to National Insurance benefits and allowances and is available from local Pensions and National Insurance Offices.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The first lecture of the present session will be given on Tuesday, October 24th, at 6 p.m. in the Oak Hall of the Institute. The speaker will be Mr H. G. Thomas, Senior Principal Inspector of Taxes, on 'The relationship between the Inland Revenue and the accountant as regards stock valuation'.

Members of the Scottish and Irish Institutes are cordially invited to attend the Society's lectures.

NORTH LONDON DISCUSSION GROUP

The first meeting of the 1961-62 session of the North London Discussion Group of Chartered Accountants will take place at the Russell Hotel, Russell Square, London WC1, on Wednesday next, October 18th, at 6 for 6.30 p.m. The subject for discussion will be 'The taxation of property companies' and the leader will be Mr C. A. S. Pain, A.C.A. New members will be welcome.

The honorary secretary of the group is Mr P. D. Knox, A.C.A., Somerset Cottage, Duxhurst, near Reigate, Surrey. Telephone: Prospect 3499.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Next Week's Meetings

The following meetings of the London Students' Society will be held during next week:

Monday: 'Practical aspect' lectures for Intermediate students at the Institute: 'Assurance and insurance', by Mr S. R. Fenwick, F.C.I.I., manager, Home Accident Department, Prudential Assurance Co; 'Banking practice', by Mr G. I. Williamson, chief foreign manager, Midland Bank Ltd; 'The accountant's place in an industrial organization', by Mr E. H. Davison, F.C.A., financial director, General Electric Co Ltd; 'Costing', by Mr J. B. Charles, F.C.A., F.C.W.A.

5.30 p.m. at the Institute: Lecture on 'Stock exchange animals - are they vermin?', by Mr C. H. Dreyfus, member of the London Stock Exchange.

Tuesday: 'Practical aspect' lectures for Intermediate students: 'Stock exchange practice', by Mr P. Legge, member of the London Stock Exchange; 'The work of executors and trustees', by Mr M. W. Lockyer, F.I.B.; 'The practical view of auditing', by Mr S. J. D. Corsan, A.C.A.

5.30 p.m. at the Institute: Lecture and demonstration of Kalamazoo accounting methods (limited number).

6 p.m. at the Institute: Speakers' Course lecture on 'How to deliver a speech', by Miss H. M. Taylor, principal, The Abbey School for Speakers.

Wednesday: 'Practical aspect' lectures for Final students, at the Institute: 'The chartered accountant and accounting mechanization', by Mr K. G. Bishop, A.C.A., chief accountant, Yardley & Co Ltd; 'The finance of foreign trade', by Mr P. J. Shaw, assistant chief foreign manager, Midland Bank Ltd; 'Economic effects of taxation', by Mr A. R. Ilesic, M.Sc.(ECON.), B.COM.

5 p.m. in Guildhall: President's meeting. Address by Hon. George A. Drew, P.C., Q.C., LL.D., High Commissioner for Canada. Chairman: Mr W. E. Parker, C.B.E., F.C.A.

Thursday: 'Practical aspect' lectures for Final students: 'Building societies - their functions and financial structure', by Sir Bruce Wycherley, M.C., F.C.I.S., managing director, Abbey-National Building Society Ltd; 'Accounting for management', by Mr Christopher I. Bostock, M.A., F.C.A.; 'Receiverships and bankruptcy practice (including deeds of arrangement)', by Mr Leslie Cork.

5.15 p.m. at the Institute: Introductory course lecture on 'The fundamentals of accountancy', by Mr R. J. Carter, B.COM., F.C.A., secretary of the Students' Society.

6 p.m. at Luton: Pre-examination course by Mr V. S. Hockley, B.COM., C.A., A.A.C.C.A.

7.15 p.m. at Reading: Lecture on 'Report writing', by Mr C. H. Kohler, F.C.A.

7.45 p.m.: 1959 Club theatre party.

Friday, 5.15 p.m. at the Institute: Introductory course lectures on 'The profit and loss account and balance sheet', by Mr R. J. Carter, B.COM., F.C.A., secretary of the Students' Society; and 'The English judicial system (II)', by Mr Patrick W. Medd, Barrister-at-law.

10 a.m. at Luton: Pre-examination course by Mr V. S. Hockley, B.COM., C.A., A.A.C.C.A.

6.30 p.m. at Ilford: Lecture on 'Consolidated accounts', by Mr R. S. Waldron, F.C.A.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

'Crisis' will be the subject of a talk by the Rev. Dick Rees at 6 p.m. on Wednesday next, October 18th, in the Oak Hall of the Institute, Moorgate Place, London, EC2. After the meeting there will be a short discussion.

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Institute 'Small Practitioner' Inquiry

THE letter in our correspondence columns this week from the PRESIDENT of The Institute of Chartered Accountants in England and Wales emphasizes the Council's determination to look after the interests of all the Institute's members and, by so doing, to maintain the high standards of the profession as a whole. The inquiry which he has inaugurated, if as fully supported as it deserves to be, should produce enough information of a tangible nature to enable the Council firstly to place in their proper perspective the problems of the small practitioner and the difficulties he has to contend with against unfair and unqualified competition, and, secondly, to try and formulate the appropriate remedies.

The questionnaire circulated for the attention of district society committees, although the PRESIDENT does not claim that it is comprehensive, appears to cover concisely the main points at issue. These are grouped in turn as relating to fees, to competition, to recruitment and to advertising. As regards fees, it is suggested that firms and individual practitioners may be prepared to submit, on a voluntary and confidential basis, information relating to overall results and partners' incomes; staff and articulated clerks' remuneration; hourly charging rates and the general manner in which practice fees are calculated. They are also being invited to state in what respects, if any, the remuneration of practising members is inadequate and what methods might be adopted to increase it. It is known that a number of district societies have already made inquiries on these matters from among their practising members and perhaps this information will be made generally available later.

The largest section of the questionnaire is devoted to problems on which practising members have expressed themselves strongly, not least through our correspondence columns. For example, representations are frequently made by practitioners on the work undertaken by banks, notably on taxation, executorship and trusteeship; in the field of auditing and of taxation there is abundant activity by those whose qualifications - or absence of qualification - affords little protection to the public. It is certain that many views will be expressed on the question of registration. These problems are not solely nor even primarily the concern of the small practitioner; they concern the profession and the public as a whole. The questions do, however, give an opportunity to the Council to hear all shades of opinion from among the

Institute's practising members; few aspects of these problems are likely to remain untouched upon by members. *Ubi jus, ibi remedium*: members will be able to state the justice of their case and no less important to propose the remedy.

On recruitment, the Council seeks to ascertain what difficulties are encountered in finding senior staff (both qualified and unqualified) and articled clerks, what the quality is and what changes, if any, practitioners would like to see in existing staff ratios. On advertising, it is hoped to find out whether there is a general view in favour of the Institute taking steps to make people more aware of the range of services offered by accountants and, if so, what form such publicity should take. This is followed by an inquiry as to whether members would countenance an increase in subscription rates in order to carry out such an advertising programme. Finally, opportunity is

afforded for the enumeration of problems which arise in the conduct of public practices on which guidance might be given through the medium of the Institute's publications. Opportunity is also provided for the ventilation of any difficulties not covered by the questionnaire.

The Council of the Institute has cast its net widely and it does not seem likely that many supplementary questions – and answers – will be forthcoming. What is much more important that the questions which the Council has posed are answered fully and frankly by as representative a cross-section of the Institute's members as possible so that constructive comparisons may be made. No reform can equitably be undertaken until the necessity for it has been clearly demonstrated. If the small practitioner can thus establish his case, he may rest assured that the Council will not fail him.

Stock Control

A PRACTICAL APPLICATION OF THE THEORY OF PROBABILITY

by PETER BAILY

THE term 'stock control' is sometimes loosely used as if it meant no more than 'stock records' or was a synonym for a stores ledger. As most accountants will now be aware, what the term really means is controlling the physical quantities of actual things which are to be found in the stores at any time. This control is mainly effected by replenishment policies and procedures which determine the average quantities in which materials, parts and supplies are stocked. Its importance can easily be undervalued; factors which have to be taken into account are: the frequency of stock replenishment orders, and hence the amount of orders buyers have to place; the urgency of such orders, and the amount of purchasing follow-up work required; the frequency of production hold-ups caused by wanted stock not being available when needed, with numerous repercussions on sales effort, manufacturing costs, and production planning; physical space requirements of the factory stores; the amount of money invested in manufacturing stocks. These manufacturing stocks account for 30 per cent of the working capital in many concerns.

Certainly there are excellent methods, both simple and sophisticated, of controlling stock without recording it; but common practice is for stock control to be effected through clerks working with stock records on paper. This is the point at which the accountant became involved. It seemed possible to avoid duplication by using a single set of records for valuing inventories, costing issues, and controlling stock. Consequently many accountants find themselves responsible for controlling stock as well as recording it. Nor was this always a historical accident; one company said: 'We believe all that sort of paper-work operation is best handled by the financial people.'

Impact of E.D.P.

But this is neither the most usual nor the best way. Some manufacturers make the production planning section responsible for stock control. In most factories, purchasing and stock control are associated in a supply department or materials management section. But the widening impact of electronic data processing on office procedures is

reversing any tendency to wall off paperwork in specialist departments. Stock recording, or inventory control, as it is known in computer parlance, ranks after payroll and ahead of sales invoicing, as the second most popular business computer application. A firm grasp of stock control principles is therefore useful to accountants working in industry, who may find themselves eventually in charge of the data processing installation, and are almost certain to be on the team which plans applications.

No operations research handbook these days is complete without a lengthy and abstruse section on what tends to be called 'The Inventory Problem'. The stock controller bent on keeping up with the field can spend many long hours struggling with the frightful lumpy jargon, as uncommunicative as doctors' handwriting, in which O.R. men baffle each other about their work. A further hazard on his path is the formidable mathematical apparatus frequently brought to bear on the problem; from which, however, several simple conclusions – some of them unexpected – can be derived.

Many special techniques exist for getting down the bank of materials carried in the stores without reducing the effective service offered. But more fundamentally there are three general questions, which can be put very simply, and the answers to which have a direct and substantial effect on stock levels. They are:

- (1) Which items count most?
- (2) At what stock levels are replacement orders initiated?
- (3) What quantities are bought at a time?

Outside specialist circles there is surprisingly little understanding of the importance of these questions, or of the kinds of answer which yield optimum stocks.

Critical Item Analysis

Critical item analysis (the first question) is a remarkably simple concept. Out of the great variety of things kept in the average factory stores, a few are critical because they are key components which cannot be got in a hurry – for these it is important to reduce the risk of stock running out to a minimum; and a few are critical because they cost a lot of money – so that it is important to reduce average stocks to a minimum. One set affects order point, the other affects order quantity.

If you list the items in almost any store,

show for each its piece cost and the quantity used over a period, multiply the two columns to obtain value of consumption, total the last column and compare individual entries with the sum, you will probably find that under 10 per cent of the items account for over 70 per cent of the total. This seems to apply like a natural law, whether it be envelope stocks in a stationery stores or manufacturing stocks in an engineering factory: because of high piece cost or high quantity consumption or both, fewer than a tenth of the items account for nearly three-quarters of the materials bill. If all items are treated alike, they will also account for three-quarters of the average stocks. Simply by singling out for individual attention these items: by scheduling frequent deliveries, phasing deliveries closely in step with requirements, reviewing them all at short intervals, it is possible to reduce stock by amounts big enough to show in the balance sheet.

Economic Order Quantity (E.O.Q.)

At the other end of the scale, 70 per cent of the items account for only 10 per cent of the value. For these some simple, semi-automatic, procedure seems appropriate. But if it is semi-automatic it need not be uneconomic; and if it is simple in practice it may not be so in theory.

For instance, at what stock level should an order be initiated? If stock is reordered when there is just enough stock left to last until the order arrives, this should keep stocks low; but how much is 'just enough'? The quantity of stock in hand is a fact, but the length of time until replacements arrive, and the rate of consumption during this period, are both (at the time of ordering) forecasts. In fact, it is necessary to provide a buffer stock by reordering *before* stock falls to the level at which forecasts say it will be just enough to last, because in the nature of things forecasts cannot be exact; there could occur some unexpected delay in delivery or increase in consumption.

There now exists a theory, with a steadily developing body of practice, for applying to this problem of uncertainty the branch of mathematical statistics dealing with probability. In fact quite a simple calculation gives a buffer stock (proportionate to the square root of the consumption estimate) which appears reasonably successful in relating the cost of carrying buffer stocks to the degree of protection required. High stocks give good protection against running out of stock, but like heavy insurance they are costly.

Running out of stock could, of course, be costlier still.

Besides, low stock levels – even if at all times adequate – are achieved by a process, in itself costly, of frequent orders and deliveries. Checking consumption and the market, placing and chasing the order, receiving unloading and checking the goods, processing the invoice and paying the bill, all take time and cost money. It is obvious that carrying stock costs money because it ties up capital, occupies space, has to be housed and handled, may deteriorate or become redundant; but the conclusion that reducing stocks will save money is true only up to a point.

A 96 Per Cent Reduction?

To take a concrete example, let us consider some stock item which is consumed at the rate of £1,000 a year. Assume that the stockholding cost, mainly the equivalent of desired yield on working capital, is 10 per cent, and the administrative cost is 10s per order. Needless to say, a special analysis would in practice be required to discover what the true marginal costs were; in a large business, administrative costs would include a large element of labour costs, but not in a smaller firm where staff cannot vary in step with work.

Suppose, first, that the item is being re-ordered once a year. Average stock will be £500. Can we reduce this by 96 per cent? Easily: by placing an order fortnightly, instead of annually, stock is caused to vary from nil to £40 instead of nil to £1,000, and average stock falls to £20.

But does this save money? Well, on the first system, placing one order a year cost 10s, and carrying £500 of stock costs £50: total, £50 10s. On the second system, twenty-five orders a year cost £12 10s and £20 of stock costs £2 to carry; total, £14 10s. The saving is £36 a year on acquisition cost, and this suggests that in large industrial stores with many thousands of stock items, great savings can be made by good stock control.

In fact, ordering fortnightly is not the most economic plan for this item. By tabulating the cost figures for a whole range of order quantities, it is easy to see that when stocks are reduced by placing more frequent orders for smaller quantities, a net saving results only so long as the reduction in stock carrying charges is greater than the increase in administrative costs. The cross-over point for the example we have been considering occurs when ten orders a year are being placed. The administrative costs for ten

orders are £5, and the carrying charge for the resultant £50 average stock is also £5. A further reduction in stocks increases administrative costs more than it reduces stockholding costs. The lowest acquisition cost we can achieve is £10 a year, and it is achieved by ordering in £100 lots – the economic order quantity.

If we look at an item which is consumed at the rate of £10 a year, we find that the cross-over point occurs when only one order a year is being placed. The administrative cost for the 10s, and the carrying charge on £5 stock is also 10s. The combined acquisition cost is always lowest when the two elements in it are equal.

From this fact, or more rigorously by simple calculus, a general formula can be deduced which will always tell what order quantity minimizes costs, whatever the price, consumption or internal costings. Different authors present the formula in superficially different forms, depending on the parameters, symbols and periods of time used. Fundamentally there is only one formula, the various versions being mathematically equivalent. One version reads:

The value of order quantity which gives the lowest combination of costs both for getting and keeping stock (the E.O.Q.) is obtained by multiplying the square root of the value of annual consumption by a certain constant.

This constant varies for different times and places but is taken as constant for different items in one store at one time. It is the root of the ratio of average administrative cost per order to percentage cost of carrying stock, adjusted for units used.

In practice, of course, there is no need to solve an equation before placing an order. Some firms who use a computer to record stock, programme the machine to calculate and print out economic order quantities whenever it prints out stock items in need of replenishment. Others use a precalculated ready-reckoner, on which stock clerks can see order quantities at a glance. Allowance can easily be made for quantity discounts, so that when lower prices are offered for larger orders, the size of order giving lowest overall cost can be chosen.

One consequence of the shape of the E.O.Q. formula is that the common practice of treating all stock items alike – carrying, for instance, three months' stock of everything – is economically unsound. As we have seen above, six months' stock may be best for an item with low annual consumption when less than a month's stock is best for items with high consumption.

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

CANADA

Long-range Planning for the Profession

THE 1960 report of the Sub-Committee on Long-range Planning of the provincial institutes of chartered accountants, approved by the Councils of the Ontario and Quebec Institutes, contains the following recommendations, among others, for implementation as from December 31st, 1969, or an earlier date if a provincial institute so desires:

- (1) A minimum requirement for acceptance as a student-in-accounts will be an approved Bachelor's Degree at a university.
- (2) The minimum period of practical training will be two years.
- (3) The provincial institutes may arrange for concurrent studies for a university degree and the C.A. diploma, but C.A. membership will be possible only after the degree is obtained.

The continued need of a course of preparation sponsored by the Canadian Institute is envisaged, though the provincial institutes will make their own arrangements, whether through part-time or full-time university study or correspondence courses.

It is suggested that in time the provincial institutes may need to employ a director of education to co-ordinate education at the pre-C.A. qualification level.

The chairman of the subcommittee, Mr Peter S. Leggat, has called for the full support of all members. He hopes that by 1969 the increasing supply of graduates will be adequate for the needs of the profession. He has suggested that the profession should now be thinking of adapting its training requirements to the changing needs of today. Thus, perhaps advanced mathematics may be required, while basic management problems are another field for consideration. A new area to be explored is that of continuing education. The challenge must be met, declares Mr Leggat, if the profession expects to retain its enviable position in the business community.

SOUTH AFRICA

Decimalization

THE Chairman of the Decimalization Board, Dr E. H. D. Arndt, said recently that the conversion to decimal currency would be completed by April next year, well ahead of schedule, and that the total cost was likely to be less than the original estimate of £9 million. Pennies and halfpennies have now been withdrawn from all the main centres, and a start is soon to be made in the country areas.

The man in the street, even if he is an accountant,

still finds difficulty in thinking in terms of Rand/cents, particularly where his own private finances are concerned. But it is probable that the present practice among shopkeepers of marking goods in both the old and new currencies will soon be abandoned, when customers will have no option but to change their pattern of thinking.

P.A.Y.E.

THE Cabinet is understood to be reconsidering the introduction of a pay-as-you-earn system of tax collection, and is likely to make the change within the next two to three years. The matter has been under investigation for some time now; the main obstacle has been that such a system was not acceptable to the Railways Administration, the largest single employer of labour in the country. But the railways are now installing a computer which should cope with any such difficulties.

It is probable that in the event of a P.A.Y.E. system being introduced, the tax year would be changed, so that instead of ending on June 30th it would be taken to March 31st and so coincide with the end of the country's financial year.

UNITED STATES

Confirmation of Debts in the Age of Automation

AN extract from a letter published in a recent issue of *The Journal of Accountancy* (New York) drew attention to the impossibility for a company, with records produced by automation and mechanization, to comply with the thousands of requests received annually from public accounting firms for confirmation of debtors, inventories, contract commitments, etc., as at a date from two weeks to two months earlier. Stated the extract: 'The days of the chronological records are gone where one can refer to the detail run of historical records.'

It was commented that no one could deny the importance of finding an answer to this problem which concerns every independent certified public accountant.

Faster Depreciation Allowance for Railways

THE Association of American Railroads has claimed that, for the purposes of Federal income tax, the life of railway property should be shortened to fifteen years for rolling stock and to twenty years for other property. It has also proposed that the railways should be allowed to establish construction reserve funds, amounts deposited in the funds not being subject to tax in the year of deposit. Amounts

so deposited would only be available for acquisition of equipment and other property used in the transportation business by railways, or for reduction of debt incurred in connection with such acquisitions. If not used within five years the amounts deposited would be subject to tax at the rate for the year of the original deduction.

It is claimed that last year the railways spent \$916 million to modernize plant, an amount representing more than twice their net income but less than 3 per cent of their investment in existing plant and equipment. The Association has stated that the Internal Revenue Service has assigned write-off periods as high as thirty-five years on rolling stock and from fifty to one hundred years on roadway structures, the rates having been established in the earliest years of tax administration.

FRANCE

Personal Allowances on a Different Basis

THE French system of giving tax reliefs for members of a family while still imposing the head of the family on all its income is known as the *quotient familial* system. The head of the family is taxable on his income and on the income of his wife, children and all other dependent relatives. Their incomes are totalled, but the total is divided into shares (parts) before tax is calculated, in accordance with an official index. The amount of income represented by one whole share is then taxed at progressive rates from 0 per cent to 60 per cent, and the resulting figure multiplied by the number of shares.

The index is as shown in Example A below.

The number of shares is increased from $\frac{1}{2}$ to 1 for each adult child who is an invalid.

The calculation proceeds as indicated in Example B below.

Example A

Bachelors, widows, widowers and divorced persons without dependants	1 share
The above if blind or totally incapacitated	$1\frac{1}{2}$ shares
Bachelors and divorced persons with dependants - taxpayer	1 share
first dependant	1 "
other dependants	$\frac{1}{2}$ share each
Married persons - taxpayer	1 share
wife or husband	1 "
other dependants	$\frac{1}{2}$ share each

Example B

BACHELOR WITHOUT DEPENDANTS

Income - NF.15,000 (1 share)

	Rate per cent		Tax NF.
2,200 X	0	.. .. .	0
1,300 X	10	.. .. .	130
2,500 X	15	.. .. .	375
3,000 X	20	.. .. .	600
6,000 X	30	.. .. .	1,800
<u>15,000</u>			<u>2,905</u>

Tax payable - NF.2,905

MARRIED WITH ONE DEPENDENT CHILD

Income - NF.15,000 ($2\frac{1}{2}$ shares)
1 share - NF.6,000

	Rate per cent		Tax NF.
2,200 X	0	.. .. .	0
1,300 X	10	.. .. .	130
2,500 X	15	.. .. .	375
<u>6,000</u>			<u>505</u>

Tax payable - NF.505 X $2\frac{1}{2}$ = NF.1,262.50

NEW ZEALAND

Monetary Council's Proposals Rejected

A PROMPT loan of £22.4 million from the International Monetary Fund, a long-term loan of £15 million from the World Bank next year, and a new 'development tax' of 2d or 3d in the £, designed to correct the country's serious balance of payments problem were among recommendations contained in the final report of the Monetary and Economic Council published last week.

Mr Keith Holyoak, the Prime Minister, has announced that the Government disagrees with these proposals and has no intention of introducing a supplementary budget - another remedy proposed by the Council. The Government, he said, did not favour shock measures, but would adhere to a policy of steady correction. He disagreed with the Council's estimate of the budget deficit and claimed that with further loans and reduction in public expenditure there could be a surplus at the end of the year.

The Council, which was set up by the Government last April, as an independent advisory authority on economic and monetary conditions, problems and policy, has as one of its members Mr G. B. Battersby, PH.D., A.P.A.N.Z., of Pickles, Perkins & Hadlee, Public Accountants, of Christchurch.

Correction

In a note on the recent Zürich congress of U.E.C. (*Union Européenne des Experts Comptables Economiques et Financiers*) in the issue of September 30th, it was stated that the U.E.C. embraces all organizations of professional accountants in Europe, except those in the United Kingdom and the 'iron curtain' countries. This is inaccurate; the leading accountancy bodies in the Netherlands and the Scandinavian countries also are not members of the U.E.C.

Some Considerations in Relation to the Accounting Treatment of Stock-in-trade and Work in Progress - II

by H. W. SYDENHAM, F.C.A.

PART III

THE INCLUSION OF ONCOST IN STOCK

General Considerations

COME now to the question of the inclusion or exclusion of an element of oncost in computing the cost of wholly and partly manufactured stocks. It is a subject of many aspects and I have felt that it deserves a separate study in this paper. It is probably true to say that this is the field in which there is the widest divergence in practice, and the establishment of a universally accepted view still seems some distance from achievement.

53. This question has of course substantial importance for taxation purposes. It is, however, necessary to recognize that considerations affecting the taxation aspect of the matter differ substantially in important respects from general commercial considerations, and they will best be dealt with separately at a later stage.

54. I propose to deal with this subject by exploring the arguments for and against the inclusion of oncost as a general principle, and do not contemplate attempting any specific examination of the merits of different methods of adding oncost, although it will be necessary to take some passing note of their existence.

55. In the great majority of cases the effect of the differences between the two methods will be comparatively limited, so far as the profit of any normal year is concerned; but in balance sheets the difference can be considerably greater, and the absence of uniformity in this direction has in the past created a source of some obscurity which could not be resolved from inspection of balance sheets and accounts without separate inquiry. The need for the recent recommendation of the Institute that a balance sheet should contain a concise statement of the manner in which the amount of stock has been computed is therefore apparent, and if (as may be expected) it is generally adopted, it will result in a clear improvement in the information provided by the average balance sheet.

56. Current opinion, I think, generally recognizes that there are two views of this issue, each well

respected and understood; and that the accountancy profession accepts either the direct cost method or the oncost method as proper for arriving at cost of manufactured stock and work in progress, in the absence of special circumstances. I imagine that in most cases, all would agree that this is so, and that members of the accountancy profession would not ordinarily feel called upon to qualify an auditors' report on a balance sheet either because oncost had been included in stock figures, or because it had not. This of course excludes such special cases as could arise, for example, where oncost added was clearly excessive, or where methods used at the beginning and end of a year were inconsistent one with the other. Notwithstanding this broad willingness to accept the views of others, I presume that each member of the profession must have his own preferences and convictions on this subject, and be prepared to make his own election of the method he would adopt when the choice falls to him. For my own part, it seems to me that the balance of reasoning is on the side of the direct cost method and this part of this paper therefore has a definite leaning in that direction. I recognize, however, that there is much to be said in support of the inclusion of oncost in the cost of manufactured stock and work in progress, and that the issue is not so clear cut that preference for one method precludes acquiescence in the other.

Direct Cost

57. I have at an earlier stage analysed the reasons for including stocks on hand at a balance sheet date in the trading account and the balance sheet; and the step forward to so treating manufacturing materials on hand, whether worked on or not, presents no difficulty. Further, where in the course of a manufacturing business workers have been paid to work on materials to change their character towards the achievement of the final product, the addition of the wages paid for that work is universally understood and agreed to be necessary. Also, other expenditures, usually described as direct expenses, but in any event clearly part of direct cost, are often incurred; examples of these are the power used in the actual work, and the cost of assistance in the actual manufacture carried out by other firms. There can be many other examples of these expenses in particular cases.

58. All these expenditures – materials, wages, and direct expenses – are recognizable as those which have been directly incurred because particular things have been made, and which would not otherwise have been incurred. So far as stocks are concerned they are, clearly and inseparably, costs which are inherent in things which exist at the stocktaking date. The test is whether they are expenditures which would not have arisen if the particular things had not been made. If they are, they are direct costs.

59. Even the ascertainment of direct expenses can bring its problems. Questions of whether holiday pay, State insurances, and other pay adjuncts are a part of wages or an overhead; what part of drawing office work, special tooling, and the like is a direct cost and what an overhead, and other similar problems arise for solution in individual cases. These problems are, however, far more limited in extent, and usually far less substantial in the amounts involved, than those which can arise in relation to overheads.

Overheads

60. To exist at all, every ordinary business may be expected to need a continuing establishment; and it usually possesses an organization complete in every particular. The organization no doubt changes both in extent and character more or less continuously, throughout its existence. It is, however, basically of a more or less stable and permanent character, in the sense that it does not change rapidly and automatically with day-to-day fluctuations in the level of trading.

61. The character and extent of the establishment and organization depend upon levels fixed by the management, and changes are the result of deliberate decisions and actions, according with progressive planning. The enlargement or reduction of establishment and consequently of expenditure arises from decisions. These decisions can be influenced by current production levels, and no doubt often (but not always) are; but the expenditure is affected by the decisions, and not by the production.

62. Thus all the running expenses of the organization continue separately from production, whether there is production or not, and whatever its level, except to the extent that levels of production influence the minds and decisions of management.

63. It follows, therefore, that there is a certain remoteness between all such expenditures and production; there is not the direct relationship of cause and effect which exists in the case of the consumption of materials and the application of labour and other direct expenditure to them on the one hand, and the resultant production on the other. The difference is more than one of degree; there is a definite and discernible difference of kind.

64. It is clear that unless all overhead expenditure continues at all times, albeit at varying levels determined by policy decisions, a business ceases to exist as an operative unit at all.

The Management of Expenses and Earnings

65. It is worth while examining this matter a little further by taking notice of the place which the management of expenses takes in the control of a business. In a well organized undertaking it is a frequent practice for the total expenses to be controlled by periodical budgets of a detailed and accurate character. Known and controlled variations take place as a period progresses, but the budgets are comparatively inelastic and large variations occur only where there are major changes of a considered kind.

66. It is true that there will also be budgets for sales and for production. The achievement of sales as each period progresses is, however, usually largely dependent on outside influences and is consequently far less certain than the continuation of organization and expenses. Management therefore watches the progress of sales, and, if necessary, from time to time adjusts the level of production as far as possible to correspond. At the same time the comparison of gross profit with expenses must be watched. Falling sales result in reducing gross profit, but do not to any substantial extent result in automatically reduced expenses. If sales fall or threaten to fall below a certain level and it becomes necessary for management to consider steps to alleviate the financial consequences, decisions may well be taken to reduce expenses. But it is a separate matter from production. It is not an automatic consequence of a fall in production although it may be undertaken by reason of such a fall.

67. In short, the management commits the undertaking to incurring the overhead expenses, and it is then its business to achieve sales and earn the gross profit which will cover the expenses and leave a net margin of profit. Fundamentally, however, the expenses are there whether production and sales are achieved or not.

The Manufacturing Cycle

68. There is a further and highly significant aspect of this question which has, I think, received less attention in the past than it has deserved, and may indeed have been largely overlooked.

69. In every manufacturing business there is of necessity some lapse of time between the beginning of the making of a product and its completion to the stage where it is ready for sale. The time of course varies enormously in different cases, and in different products in the same undertaking. It can be very short, but is frequently substantial. A result of this is that when any new manufacture is commenced, there must obviously be an initial period, during which the first cycle of production is being carried out, in which there can be no output and no sales, although of course the overhead expenses of the undertaking or department will have started, and will run throughout the duration of that first period. There can seldom be any convincing reason to foresee that those expenses will ever be made up in a future period, including even the final period in which the production may cease.

70. It may perhaps best illustrate the consequences of this if they are considered in relation to a conventional and over-simplified example of a new factory which undertakes a substantial output confined to one single type of article, which takes twelve months to manufacture, and where on the last day of a particular year it is decided to cease business as soon as all work on hand has been finished.

71. It follows that in that case completion of the work on hand will take one year. During that year as production progressively decreases, the purchase of materials, the consumption of labour, and the direct expenses will decrease correspondingly; but, subject to any irrelevant influences, the proportion of gross profit to sales will be maintained. Moreover the sales and the total of gross profit will also be maintained because only work which had been begun by the first day of the year could, even if there had been no decision to stop, have been completed and available for sale in the year. The expenses also would continue throughout the year, for the organized business would need to continue to perform practically all its functions until the end of the year. It is true that management might well seek to moderate some of the expenses as the year progressed, but the scope for this would be strictly limited, and this would not in any event affect the basic position.

72. If, in this case, stock and work in progress had been brought forward from the previous year at direct cost, the business would show a normal profit for the final year – a year's sales, a year's gross profit, and a year's expenses. But if oncost had been included in the cost of that stock, the year would have to bear not only its own expenses but also, in addition, a proportion of the expenses of the past, and the normal profit on the year's sales would in consequence be reduced or extinguished. One year's sales would have to support more than one year's expenses.

73. The oversimplification in this example is of course considerable, for the production cycle is seldom as long as one year, and cases of a single length of cycle in a particular undertaking would be rare; nevertheless the same inescapable influences will always lie in the background in the running down and termination of any manufacturing business.

74. The nature of the phenomenon involved in this illustration is made clearer if the notional undertaking I have imagined is given a finite life of, say, ten years, and if imagination is strained further by permitting it to be regarded as having worked at exactly the same rate and level throughout the years. Then obviously in ten years it will have had one year without any completed output, and nine years of full output. Nevertheless in substance it would have incurred ten years' overhead expenses.

75. And so it can be seen that ultimately the question of whether oncost should be added to unsold manufactures on hand is very largely a question of whether the expenses of the period of the first cycle of production should be regarded as a charge to be borne

by the business at that time, or whether they should be carried forward from year to year, finally to fall in the last year of operations, where they are no more comfortable than they would have been in the first. Neither solution can appeal as a happy and unassailable one; but to carry forward expenses to the future is an artificial procedure, and needs convincing and undeniable justification to warrant it, and I find it difficult to perceive any. On the contrary I would rather say that the money, being spent and gone, should be written off and the way cleared for simple accounting to show the full profits earned in all future years.

76. It does not seem a sufficient justification for carrying forward such expenses to argue that in a going concern account need not be taken of what might happen upon cessation because cessation is unlikely. To do so involves ignoring both a logical deduction and a latent possibility.

77. I appreciate that in relation to my conventional example it may be pointed out that production in the last year being on a declining scale, the year did not deserve to show a full profit, and similarly that the first year did not deserve to show the full loss which is created if all expenses are written off; but that is due to the operation of the quite separate and almost universally accepted principle that profit arises when a sale is made, and not until then. My purpose has been to show that there is no room for brought forward expenses to be charged in the final year, and that unless expenses are left undisturbed in the years in which they arise, they tend to travel on through the years indefinitely, with considerable danger of coming to grief in the end.

Calculation of Oncost

78. The determination of an amount to be included for oncost in the cost of manufactures on hand opens up a wide field of possibilities. Numerous alternatives are available for selection in relation to what expenses shall be brought into account, and the method in which the proportion of them shall be ascertained. Only limited reference to the wide choice which can be made is necessary. The selection of expenses can vary between a small range of 'variable' factory overheads at one extreme to the whole or almost the whole of the expenses of a business at the other; and many and varied methods of distribution of oncost have been devised. No doubt nowadays methods tend to find some approximate common level in a moderate middle course, but there is no definite and natural basis which can be pointed out as the only right and proper one.

79. It is not within the scope of this paper to deal with the principles of analysis of expenditures, but for a study of this subject I may refer the reader to the admirable treatise issued by the Council of the Institute in November 1951 entitled 'Notes on the allocation of expense', *Members' Handbook* R. 2, in which it has been explored comprehensively.

80. Where for the purposes of accounting actual figures cannot readily or immediately be ascertained, it is universally accepted that the proper course is to make use of suitable estimates. It is to be observed that in most of such cases actual figures eventually emerge and, automatically, appropriate adjustments are made. But this is, I think, somewhat different from the case of additions for oncost; actuals will never become available to replace the original figures, and in any event they are not so much in the character of estimates, as of purely notional amounts computed and added on the basis of academic conceptions.

81. Additions for oncost therefore have the inescapable objections that because of their notional character they must usually be far from truly factual, and that the determination of their amounts has to be far more a matter of individual preference and of policy than of ascertainable fact.

Variables

82. Although I have dealt with the issue on hand in basic principle and it has been no part of my case to deal with specific expenses or groups of expenses, I think that current events make it useful for me to refer to the section of expenditures which has come to be spoken of as 'variables'. In recent times there seems to have developed increasing support for the view that the way to deal with overheads in respect of stocks is to bring in 'variable' and exclude 'fixed' overheads. The distinction between variable overheads and direct expenses tends to become a very fine one. A good test of direct expenses would, I think, be that of inquiring whether they naturally vary in direct proportion to production; and this may bring in a considerable part of what might alternatively be called variable overheads. Beyond that point, however, the dividing line between variable and fixed overheads must be somewhat arbitrary and obscure, for it cannot be doubted that few overheads are absolutely static and most of them will ultimately increase as an undertaking grows.

83. In this respect one incident of the *Duple* case may be of interest. After having contended consistently for a proportion of all overheads except selling and financial expenses, in their written submissions to the House of Lords, the Revenue included the following:

'it is respectfully submitted . . . that at any rate all items of expenditure which vary directly by reference to the productive work of the taxpayer in a given period should be taken into account in ascertaining the cost of work in progress at the beginning and end of such period'.

Leading counsel for the Crown made a special point of reading this to the Judicial Committee of the House at the end of his final submissions and appeared to set much store by it. With so much conceded, the difference between the Revenue's contentions and those of the company had become exceedingly small. If the Revenue's words 'which vary directly by

reference to' had been slightly changed to 'which vary in direct proportion to' and if the opening qualifying words 'at any rate' had been omitted, the company would have been in agreement with them.

The Case for Including Oncost

84. The leading argument for including some proportion of expenses in the cost of manufactures on hand is the attractive one that the manufactures could not have been brought into existence if the expenses had not been incurred. It is supported by further considerations.

85. In periods where manufactures on hand at the end of a year have materially increased over those at the beginning of a year, the expenses of the business will have supported production in excess of sales. If the excess is eventually sold, a future year will receive the benefit of gross profit on goods previously made; and it is reasonable for the subsequent year to bear some of the expenses of the previous year. It is to be noted that this argument can fail completely if stocks remain on the increased level, or if for any other reason the increase is not ultimately realized to full advantage; but this does not in the main extinguish the argument.

86. Moreover, in a period of lower sales, but maintained production, the profit shown for the period is assisted by the probable resultant increase in total oncost included in the increased stock; and in periods of higher turnover and reduced stocks the process is reversed, so that there can be some tendency for a levelling out of profits from year to year. This, however, is arguing from results, and is using the system for motives extraneous to the academic issue, and is the least attractive form of support for this method.

Oncost for Accounts Purposes – Recapitulation

87. To conclude this exploration, I would say that it has to be recognized that there are reasonable arguments both for and against the inclusion of some element of oncost in the cost of manufactures on hand, and that there is little prospect of a universal formula being devised to settle this issue on all occasions. That the present gains something from the expenditures of the past in most businesses is beyond doubt, and although this is not by any means confined to the case of realizations of previous manufactures, it is in that respect that it is usually most apparent. In periods of unusual accumulations of unsold manufactures followed by corresponding periods of high realizations, a subsequent period can benefit abnormally from the work of a previous period. But residual benefits of this kind at the end of any period are incapable of exact measurement, are unrealized, and cannot be separated from future events; and reaping any advantage from them is entirely or almost entirely dependent on continuation of all the organization and expenditures of the business in the future – the cost of them has to be repeated to make any realization possible. Such residual values

can to some extent be transferred from one period to the next by including some element of oncost in the cost of manufactures on hand at accounting dates. At times of fluctuating fortunes this has the deep disadvantage of resulting in higher figures for costs of stocks at the end of poorer periods and lower figures at the end of better periods. I find little encouragement towards the oncost method in suggestions that the addition should be limited to oncost computed on the basis of a 'normal' level of production. This seems to me at the same time an admission of the imperfections of the method and an introduction of yet a further element of imprecision. At all times it carries forward to the future stock figures which leave limited margins for profits, and which include expenses carried forward which will continue to arise in full measure in the following period.

88. The ultimate choice of the method to be selected is one for managers and proprietors. The accountant will have his own views and preferences, and circumstances will affect each case; but in every case it is beyond doubt that the reader of the resulting accounts needs to be informed of the nature of the basis adopted before he can receive the complete view that the accounts ought to convey.

89. I summarize my reasons for my personal preference for the direct cost method, practical and theoretical, as follows:

- (a) I believe the running expenses of a business as a whole are distinct from the costs of manufactures and that they continue whether there is manufacturing or not.
- (b) If oncost is included in stocks, the addition is necessarily an arbitrary one, and there can be no certainty about its measurement.
- (c) If the business – or part of it – ceases, and if the expenses in the last year are augmented by expenses brought forward from the past and included in stocks, the year's sales will have more than a year's expenses to carry, and probably closing down expenses in addition.
- (d) Starting a new year with stocks brought in at direct cost brings no legacy of past expenses to be met out of the gross profit on the year's sales.

PART IV

TAXATION AND ONCOST

90. Commercial considerations present no bar to the weighing of both academic and practical arguments for and against the inclusion of oncost in stocks, nor to the study of the best methods of computation if it is to be brought in.

91. For taxation purposes, in cases where the law does nothing to point the way to the settlement of an issue relating to the manner of accounting to ascertain profit, the generally accepted practice of accountants is likely to be followed. But on this particular issue two barriers stand in the way of adopting accounting

practice. Firstly there is the absence of such an established consensus of opinion as would enable one particular method to be pointed out which would be generally recognizable and acceptable as the only right one; and secondly there are clear indications in the scheme of the taxing Acts, and in the cases interpreting the Acts, which in the absence of quite exceptional circumstances, are consistent only with the direct cost method.

92. In the *Duple* case this has been upheld without dissentient voice through all the Courts; the Crown's contrary contentions have in the particular circumstances of the case been described in the Court of Appeal as 'producing an unfair result'; and in the House of Lords as 'unreliable', 'fundamentally wrong', 'wildest guess-work', and 'remote from common sense'; and some of the undesirable illogicalities which can arise under the oncost method have been illustrated. The case was of course decided on its own particular facts, but it would be hard to distinguish it from the generality of manufacturing cases except in matters of detail and degree, as distinct from principle, and this appears to have been accepted and conceded in advance by the Revenue, if this inference can be drawn from the many cases where the Revenue appear to have made arrangements with particular taxpayers to follow the final decision when reached.

93. It is not part of my purpose to analyse the *Duple* decision in detail; the case stated and the judgments have been published and are available for all to read. But some mention of the 'scheme' of the Acts to which I have already referred is I think necessary for the completeness of this paper, for it will show clearly why the proper basis is so much more definite for tax than it is for commercial purposes.

94. The addition of oncost to stock and work in progress is a means of carrying forward some part of the expenses of a business to a future period. In the *Duple* case this was common ground, and the Crown argued strenuously, but in vain, that only those expenses, or the proportion of them, which could be related to goods sold in a particular year could be allowed in that year.

95. The tax rules as to allowable expenses are not for academic argument; they are express, and appear in Section 137 of the Income Tax Act, 1952, and its predecessor, the old Rule 3. The Courts have always held that the negative form used in those rules has to be interpreted to mean that what is not forbidden is to be allowed. Therefore all expenses incurred in a year, other than the excepted ones, are allowable.

96. A long series of cases shows that this simple rule stands firm. Expenses actually incurred subsequently, even though the cause arose in a particular year, cannot be deducted until the time when they are incurred. Expenses incurred now, even though some benefit from them will arise later, are to be deducted now, and there is to be no meticulous consideration

of whether some residual advantage from them will arise in subsequent years. In the old *Vallambrosa* case in 1910,¹ where only one-seventh of the rubber trees had reached the productive stage, all the expenses of cultivation and maintenance were allowed, and the Court emphatically rejected the Crown's attempt at disallowance of six-sevenths. This was mentioned by Lord Reid in the *Duple* case as a decision often followed and never questioned. But many cases of widely differing character have in the end been decided on this principle, and it must be regarded as very firmly established.

97. Impressive recognition of this principle of income tax law is to be found in the collateral legislation with regard to excess profits tax and excess profits levy, which provided that profits were to be computed in accordance with income tax principles, subject to specified modifications. The modifications included a provision that, where a deduction which would otherwise have been allowable did not represent a sum 'reasonably and properly attributable' to the particular accounting period, only such part of the deduction should be allowed for that period as was 'reasonably and properly attributable' thereto; and the remainder was allocated to its proper periods. In respect of excess profits levy, the rubric to this rule is 'attribution of expenses to proper periods', which as the title to a rule modifying income tax principles is highly illuminating.

98. Thus the principle of income tax law that expenses are to be allowed in the period in which they are incurred has twice received statutory recognition in recent times when the imposition of a temporary tax has necessitated its modification to avoid inequitable results.

99. The law in relation to the oncost question may therefore be summarized by saying that for income tax purposes, expenses lie where they fall, and an arduous and, in the end, inconclusive inquiry is not required each year to determine some apportioned part of them to carry forward to the chances of the future in the form of an addition to stock and work in progress. It is not surprising that the Legislature should thus in effect have spared Commissioners and the Courts the impossible task – which would have become necessary if the law had been otherwise – of deciding what expenses should be carried forward and in what manner the proportion of them should be calculated.

100. Some further comments arising out of the *Duple* case may be of interest.

101. Firstly, in the House of Lords, the Crown, in showing the limits they would apply to any oncost addition, steadfastly asserted that it was always open to the taxpayer to elect to value his work in progress at market value, and that market value for this purpose was the actual immediate saleable value of the work in progress as it stood, notwithstanding that this might often be negligible. The Law Lords not sur-

prisingly had great difficulty in countenancing this view, and it formed no part of the *ratio decidendi* of the case, but it was mentioned in the course of the judgments, and serves the purpose, to my mind, of illustrating the unreality of making any attempt to solve the question on the basis of 'valuation', in the proper meaning of that word. To accept the view expressed for the Crown on this point would produce the most misleading results in accounts, and I would not expect it to find support in our profession in any ordinary case – even though it would often result in some reduction in taxes payable.

102. Secondly, there is, naturally, some discussion at present on the extent to which the decision will be applicable in other cases, in the future. In my view, as I have shown, it is based on a firmly established principle of law, and I know nothing in the circumstances of *Duple Motor Bodies Ltd* which especially distinguishes its manufacturing operations from the ordinary run of manufacturing. It is therefore my view that the decision indicates the right course for income tax purposes in all ordinary cases. This, however, does not deal with the many cases where the other course, in one form or another, has already been adopted, either voluntarily, or involuntarily as a result of Revenue pressure, and the further cases where the taxpayer may choose, as a matter of individual policy, to adopt or continue an oncost method for taxation purposes. These cases bring their own problems which remain to be worked out and which have not been explored in the *Duple* case.

103. Thirdly, it does not seem to me that the *Duple* decision is one which is very likely to be altered by legislation, for the establishment of any precise rules for defining and measuring an addition to be made for oncost would I think present supreme difficulties of draftsmanship, and complexities and controversy. And a method which has been referred to in the Courts in such terms as those I have mentioned earlier, seems unlikely to commend itself to any Chancellor of the Exchequer, or to Parliament, as one which should be imposed by legislation on all taxpayers concerned.

104. Finally, a decision which stems from specific taxation rules clearly cannot form a conclusive authority on the wider question of what is right for universal commercial and accounting purposes. But in this case the decision applied to a problem which, considered academically, more than one judge described as insoluble, and it is based on robust common sense and the conception of taking one year with another. I find in it a measure of support for my own particular views on the wider questions.

PART V CONCLUSION

105. I set out to deliberate on the place which stocks play in the course of business trading and to explore in some detail a limited number of particular cases where more than one way is used in practice for

¹ *Vallambrosa Rubber Co Ltd v. Farmer*, 5 T.C. 529.

determining the amounts to be brought into annual accounts for stock, and I have now exhausted that purpose. I am very aware of having covered only a limited number of such cases, although I hope that those I have dealt with include some of the most far reaching and topical.

106. I am particularly conscious of having made very little mention of the requirements of consistency in method from period to period. I have thought this so obvious and simple as not to call for any extensive mention, and so far as the accounts of limited companies are concerned it is largely covered by the requirement in the Eighth Schedule of the Companies Act, 1948, that the effect of any change in accounting method be disclosed.

107. I may perhaps mention that I do not find myself in absolute agreement either with the recommendations of the Council of November last or the letter of the Chairman of the Board of Inland Revenue in May of this year to the President of the Institute if they are intended to imply (as perhaps they are not) that a system once adopted must never be changed in the absence of new circumstances. I think that a change in the opinion or the policy of a management, or a change to a new management with different views, may perfectly well result in a wish to change from one method to another. There is more than one way of dealing with such a change to obviate misleading results, and in the long run, provided proper precautions are taken, there need not normally be any serious distortion of results or of averages. I am inclined to think that the best way of dealing with any such change would usually require the preparation of

a second set of stock figures at the beginning of the year of change, and the adjustment of the resulting differences on the profit and loss account balance brought forward; where, however, the changes involved are of strictly limited effect it may well be sufficient to deal with them by note. Obviously, however, this does not qualify the general need for consistency; even in such a case as I have mentioned, the change would be an isolated occurrence. Examples of such steps having been taken have certainly occurred in the past.

108. Of course, such changes give rise to interesting taxation problems which may not yet have been fully resolved; but it has to be remembered that taxation does not depend upon the way in which accounts are prepared. I do not know that a change in the method of ascertaining stock figures need necessarily result in any change in taxation at all, provided figures computed on the pre-existing method can be ascertained with reasonable certainty – it may merely call for just one further adjustment in the annual Schedule D computations.

109. Many of the questions which arise in relation to stock figures are questions of when profits are to be brought into account and when detriments are to be charged, and where there is a discretion the solution is consequently a matter for directors or proprietors. I do not think that there is always any conclusively right solution, but I have indicated my own preferences and the reasons for them. It is a subject upon which more is likely yet to be said.

(Concluded.)

Weekly Notes

Capital Instalments or Income?

MR JUSTICE CROSS in the High Court on Friday, October 13th, reserved judgment in an appeal from the Special Commissioners of Income Tax concerning a contract made in 1956 to sell a block of shares in Frederick Leyland & Co Ltd. The owner, Mr Edmund Hoyle Vestey, was advised by his accountants that the shares were worth some £2 million. He was minded to sell them to the Western United Investments Co Ltd, which was to hold them as trustee of some settlements, in consideration of instalments over 125 years. The accountants advised that a fair price would be 125 annual instalments of £44,000 each, making a total price of £5½ million, and an agreement was accordingly entered into on these terms. The documents brought into existence by this transaction have already been the subject of litigation with the Inland Revenue in connection with stamp duty (36 A.T.C. 320).

The Revenue argued that the whole of each instalment constituted income in Mr Vestey's hands, while he contended that each instalment was a pure capital sum. The Special Commissioners held that there was an interest element in each instalment and that this interest element alone was taxable. Both sides have appealed to the High Court from this decision.

Conservatives call for Tax Changes

THE Chancellor of the Exchequer told the Conservative Party Conference at Brighton last week that his request for dividend restraint had met with 'considerable response'. He repeated his opposition to a general capital gains tax but he said that there were some transactions such as short-term deals on the stock exchanges and in property which were intended to bring in what was really spending money or income and should be taxed as such. He emphasized that he intended to keep his promise to tax this kind of gain. But capital was already heavily taxed by death duties and it was wrong to discourage saving and development by taxing capital still more.

A plea from the floor for the reduction or abolition of stamp duty on share transfers brought the not

unexpected reply that the Government could not afford to lose some £100 million of stamp duty revenue. However, subject to this a promise was made to the conference to examine ways of making the transfer of shares simpler and cheaper. Against the advice of their leaders, the delegates passed a resolution calling for the abolition of income tax on owner-occupied property.

Resignation from the Council of the Institute

AS announced in our last issue, the resignation of Mr C. M. Strachan, O.B.E., F.C.A., from the Council of The Institute of Chartered Accountants in England and Wales was received with much regret by the Council at its meeting on October 4th.

Mr Strachan, who is senior partner in the firm of Hodgson, Harris & Co, Chartered Accountants, of Hull, was admitted an Associate of the Institute in 1911 and was elected to Fellowship in 1947.

He was elected to the Council of the Institute in 1949 and served as Chairman of the District Societies Committee from 1956-59. He had been Vice-Chairman of the Parliamentary and Law Committee since 1959 and was also a member of the Disciplinary and General Purposes Committees.

Half-year's Balance of Payments

THERE is nothing very unexpected in the balance of payments statistics for the first half of 1961 which were released last week in a Government White Paper (Cmd. 1506, H.M.S.O. price 2s). It was already known that since the end of last year exports had held the modest gain which they achieved in the closing months of 1960 while the value of imports had continued to decline. The trend of visible trade was thus known.

Interest mainly attaches to the behaviour of the invisible items. The worsening in the balance on invisible account slowed down in the first six months of this year but Government spending on military forces in Germany increased sharply. The invisible surplus was £25 million compared with £49 million in the first half of last year. The long-term capital account showed a deficit of £46 million, but had it not been for sales by their Ford interest to British shareholders and a substantial repayment of German debt the net long-term capital outflow would have been about £220 million.

Taking the current account and the long-term capital account together there was a favourable balance of £97 million compared with £183 million in the same period of 1960. In the case of monetary movements there was an adverse balance of £32 million. There were, however, very big movements in the components of the items making up the total of monetary movements. Sterling held by countries outside the sterling area fell heavily and there was a big fall in the reserves despite the assistance given

under the Basle arrangements. Sterling holdings by sterling area countries went up to £124 million. It is apparent that the United Kingdom's balance of payments position is still exceedingly vulnerable.

Less Business Optimism

THE latest inquiry by the Federation of British Industries on the state of business confidence shows a revision in prospects, particularly in the home market. This twelfth inquiry by the F.B.I. was based on returns made by 686 concerns covering the month June to September inclusive. The Chancellor's July 'budget' therefore fell roughly in the middle of this period. The returns show that the trend of output has been slightly upward but there has been a worsening in the order position. More firms reported that they were working below full capacity or had more unused capacity and there was no increased pressure on labour supplies. Investment intentions show a downward trend.

Compared with the report in June, more firms indicate a decline in the rate of new orders than an increase and more cases of shorter than longer order books. A lack of orders replaced a shortage of skilled labour as the main obstacle to higher output. Rising costs are again reported by a big majority and this reflects continuing heavy pressure on profit margins. The only unexpected feature of the returns is that more firms reported an increase in stocks of raw materials than a decline.

So far as a prospective easing in investment is concerned, the downward trend in prospective authorizations of expenditure on building has accelerated. It will be recalled that these inquiries have indicated a downward trend in building for the last year. The disturbing feature of the return is not only that the downward trend is accelerating but for the first time for two years a majority of concerns report an expected decline in expenditure on plant and machinery.

Export prospects are rather less gloomy. According to the report there seems to have been a slight downturn in the rate of receipt of new orders (though less marked for the home market), but more firms reported a rise than a fall in the level of deliveries. Finance seems to have become a slightly more important factor in the export market and delivery dates slightly less so. Meeting competitors' prices continues to be the main difficulty.

Resale Price Maintenance Survey

THE magazine *Which?* has recently conducted a survey into the public's reaction to resale price maintenance. In the first instance it has analysed 5,366 reports received in response to 16,000 questionnaires sent out to members of Consumers' Association Ltd (publishers of the magazine). Since its members are not necessarily typical of the whole

population it has commissioned an independent survey of the general public as well. These were asked almost identical questions to those taking part in the Association's survey and some 2,132 people were personally interviewed.

The general conclusions from both surveys were that most people think that a branded product should have a marked and advertised standard price. Most think that a shopkeeper should be free to charge a different price if he wishes to do so; Association members think so more than the general public. A majority is against resale price maintenance for goods bought regularly or fairly frequently. Most Association members are against resale price maintenance on durables.

Report on Co-operatives

THE co-operative movement in Britain continues to grow, according to statistics given in Part III of the annual report of the Chief Registrar of Friendly Societies published last week (H.M.S.O. 6s).

In 1960, there was an increase in membership of co-operative shop societies of 166,000 (1.3 per cent) and sales exceeded £1,000 million for the first time. Dividends paid on members' purchases amounted to £48 million, being an average rate of rather less than 11½d in the £, while the surplus for the year totalled £62,703,000 (approximately £1 million less than in 1959). The total of reserves and disposable balance at the year-end amounted to £65½ million, representing 13.6 per cent of the total assets.

This Is My Life . . .

by An Industrious Accountant

CHAPTER 95

WE were honoured this morning by an informal visit from an important political figure – an old school friend of the chairman. So he was shown around with due deference, introduced to people of all levels and later brought to lunch in the senior staff dining room.

He did himself rather well, I must say. The chef had prepared a special main course of pheasant, suitably matured, and our visitor evidently appreciated it. Then, cigar in hand, he lectured us on the iniquities of obscure balance sheets, directors receiving excessive compensation, misstated profits, and such-like modern industrial diseases. When he retired for a private chat with the chairman and we recollected his forceful speeches at Westminster, we envisaged the arrival of a new Companies Act as a foregone conclusion.

Suddenly, at 3 p.m., came an urgent S.O.S. He had a pain. By 4 p.m. he was on his back in the welfare section, moaning gently, and the doctor was looking worried. The chef, conscious of suspicion, had become truculently defensive.

I told the managing director of the impending catastrophe, but he only stretched with luxurious enjoyment and remarked that it was clearly retribution. 'So perish all who denounce private enterprise,' he remarked piously. Our factory manager, a dour Yorkshire type, pulled on his pipe and suggested that the chef would receive the thanks of a grateful nation. The office manager, not blessed with a sense of humour, muttered about a political plot.

I alone was having heart-failure – we weren't covered by our insurance. Our own fault, of course. Our public liability policy provided us with indemnities

in cases of slippery stairs, or bursting boilers, or fires, or numerous other unpleasant contingencies. But the canteen was only a short time in existence, and no one had thought of covering food-poisoning.

My secretary, always resourceful, suggested typing a letter to our underwriters dated last week, filing the copy, and claiming that the original had obviously got lost in transit. It seemed worth risking. A deceased potential Prime Minister might be valued at astronomical figures by a weeping but well-briefed widow. Anyhow, commented the office manager with gloomy satisfaction, it was high time that these bloated underwriters spent some of those substantial reserves they were always quoting.

I had to deliver a short homily on *uberrima fides* to stop the rot setting in.

Later in the afternoon the V.I.P. fortunately recovered, and was escorted to his car, smiling a wan, brave smile at his public as he passed. Our window cleaner, an ardent supporter of his, almost dropped a bucket on him in the excitement of the moment. We then realized that the said window-cleaner, a cheerful young ex-serviceman, newly set up in business, had not produced a current public liability certificate. Moreover, it was highly unlikely that he was indemnified against braining M.P.s in the course of business. *Ergo*, a hasty phone call to our brokers to be over in the morning with a metaphorical fine-tooth comb; also, an urgent convening of the canteen committee to meet the chef. That resourceful gentleman was standing by with a sheaf of imposing press cuttings about the dire diseases ensuing from nicotine. The cigar, he declared, was the culprit and he was prepared to call the shop stewards if the pheasant was to be blamed.

The office manager solved the problem. A theologian of the old school, he believed that the end justified the means. He declared that he also had eaten pheasant, that he had suffered pains, and that he didn't smoke cigars. This simple expedient routed the chef, and saved us the mortification of telling the doctor that we couldn't decipher the hieroglyphics following 'CAUSE OF ILLNESS' on his certificate.

Finance and Commerce

Powell Duffryn

THE accounts of Powell Duffryn Ltd, the company with the shipping, coal, oil, timber, engineering, air conditioning and other interests, provide this week's reprint. Sir Henry Wilson Smith, the chairman, refers in his review to the board's 'conclusion that the time had come to change the presentation so that the accounts should be more informative as well as clothed in a more attractive dress'. And he adds: 'While we have deliberately avoided extreme flights of artistic fancy, we have endeavoured to present a clear and readable picture of our affairs.'

A dividend of 18 instead of 16 per cent, says Sir Henry, would have been clearly justified and on the Chancellor's precise words, he maintains, the increase would not be ruled out. But the directors felt it was their public duty to comply with the spirit and not merely with the letter of the Chancellor's request.

Inevitably, the matter was raised at the annual meeting. Sir Henry pointed out that whereas it is normal habit in this company to retain in the operating subsidiaries the profits retained in the business and to pass to the parent just a sufficiency of profit to cover dividends to shareholders, these accounts have been completely constructed on the basis that the addition to the parent's carry forward - 'the nearest possible trembling on the brink to the actual declaration of an increased dividend' - has been increased by an amount which any mathematician can calculate would have been sufficient to pay the increased dividend that they were wishing to declare.

Capital Structure

THE capital structure of J. Mandleberg & Co (Holdings) Ltd is 'somewhat archaic', said the chairman, Mr R. G. Cooke, at the annual meeting in Manchester, according to a Press report. The structure referred to totals £720,000 of which £70,000 is in 7 per cent £1 Cumulative Preference shares, £120,000 in 8 per cent £1 Participating Preferred Ordinary shares and £530,000 in 10s Ordinary. Its reorganization, said Mr Cooke, is under consideration.

Capital structures do have their day. High denomination gives place to low (by comparison) denomination. The several classes of Preference with degrees of dividend entitlement, priority and voting power are consolidated. Preferred, with some participation, ahead of a highly-g geared Deferred was a fashion of the 1928 stock-market boom.

Another reported saying of Mr Cooke's is that his

Appropriation of Consolidated Net Profit

	1960 £	1960 £	1960 £	1960 £	1960 £
Profit on Trading	3,471,980	1,384,635	1,181,125	52,369	177,511
Less Provision for Depreciation	1,261,005	779,898	635,001	295,852	295,852
	2,210,975	604,737	546,124	525,732	525,732
Add					
Dividends and Interest	175,797	470,624	450,232		
Income from Trade Investments	220,734	1,075,361	996,356		
Income from Other Investments and Interest Receivable					
	396,531				
	2,607,506				
Deduct					
Interest on Debenture Stocks	43,652				
Profit before Taxation	2,563,854				
Deduct					
Provision for Taxation	80,027				
Foreign Taxation	150,531				
United Kingdom Profits Tax	237,371				
United Kingdom Income Tax	742,162				
	1,059,560				
	1,504,294				
Net Profit after charging Taxation					
Deduct					
Proportion Attributable to Minority Shareholders'					
Interests in Subsidiary Companies	119,659				
Consolidated Net Profit-Attributable to Powell Duffryn Limited	£1,384,635				

POWELL DUFFRYN

Consolidated Profit and Loss Account for the year ended 31st March 1961

This Balance Sheet should be read in conjunction with the Notes appearing on page [546].

POWELL DUFFRYN

Notes on Accounts

These Notes form part of the Annual Accounts

	Powell Duffryn Limited £	Consolidated £
1. Reserves		
Capital		
Balance at 31st March, 1960	2,900,695	6,529,651
Add:		
Transfers from Revenue Reserves		82,664
	2,900,695	6,612,315
Deduct:		
Adjustments mainly arising on acquisition of Subsidiary Companies		150,993
Balance at 31st March, 1961	£2,900,695	£6,461,322
Revenue		
Balance at 31st March, 1960	2,617,786	7,803,726
Add:		
Retained by Subsidiary Companies	79,005	779,898
Increase in Unappropriated Profit of Powell Duffryn Limited		79,005
	2,696,791	8,662,629
Deduct:		
Transfers to Capital Reserves		82,664
Adjustment to Book Values of Trade Investments		17,960
Balance at 31st March, 1961	£2,696,791	£8,562,005

2. Statement of Directors' Emoluments and Pensions pursuant to Section 196 of the Companies Act, 1948

	1961 £	1960 £
Fees	7,909	9,250
Salaries and Other Emoluments	52,234	47,107
Pensions including Retirement Gratuity	10,725	6,803
	£70,868	£63,160

3. Accounting Dates

The Accounts of all Companies are made up to the 31st March, 1961 except for some of those trading abroad where the financial year ended either on the 31st December, 1960 to avoid delay in the preparation of the Group Accounts or on the 30th September, 1960 because of the seasonal nature of the Companies' trade.

4. Rates of Exchange

The rates of exchange in force at the 31st March, 1961, have been adopted for the translation into sterling of all foreign currencies.

5. Taxation

Taxation on the profit of the year has been charged in the Consolidated Profit and Loss Account after taking credit for £270,000 (1960—£160,000) of relief arising from investment allowances on capital expenditure.

6. Capital Commitments

There are commitments for future capital expenditure at the 31st March, 1961, amounting to £2,100,000 (1960—£1,060,000).

POWELL DUFFRYN

Comparative Results 1957-1961

	1957 £000's	1958 £000's	1959 £000's	1960 £000's	1961 £000's
CONSOLIDATED PROFIT					
Profit on Trading, Dividends and Interest Receivable	3,079	2,990	2,822	3,245	3,869
Less: Depreciation	754	844	976	1,076	1,261
	2,325	2,146	1,846	2,169	2,608
Deduct: Interest on Debenture Stocks	12	11	11	12	44
	2,313	2,135	1,835	2,157	2,564
Deduct: Taxation	1,176	969	645	864	1,060
	£1,137	£1,166	£1,190	£1,293	£1,504
Net Profit after charging Taxation					
Proportion Attributable to Minority Shareholders	£99	£103	£114	£112	£119
Consolidated Net Profit Attributable to Powell Duffryn Limited					
Less: Dividends paid by Powell Duffryn Limited	493	493	513	526	526
Retained in the Business	545	570	563	655	859
	£1,038	£1,063	£1,076	£1,181	£1,385
NET ASSETS EMPLOYED					
Fixed Assets less Depreciation	8,073	9,255	10,828	11,555	12,927
Trade Investments	1,508	980	978	1,125	1,124
Net Current Assets	12,843	12,778	11,637	11,650	11,438
Total Net Assets Employed	£22,424	£23,013	£23,443	£24,330	£25,489
Representing:—					
Deferred Liability for Future Taxation	1,444	1,367	1,298	1,530	1,668
Debenture Stocks (Subsidiary Company)	275	263	250	569	973
Minority Shareholders' Interests in Subsidiary Companies	1,130	1,167	1,216	1,267	1,194
Preference Shares	1,800	1,800	1,800	1,800	1,800
Ordinary Shareholders—Equity Interest	4,649	4,597	4,564	5,166	5,635
	17,775	18,416	18,879	19,164	19,854
	£22,424	£23,013	£23,443	£24,330	£25,489
RETURN ON AVERAGE CAPITAL EMPLOYED					
Based on Profits before charging Debenture Interest and Taxation	10.6%	9.4%	7.9%	9.1%	10.5%
RATE OF DIVIDEND ON ORDINARY SHARES	16.0%	16.0%	16.0%	16.0%	16.0%
ISSUED ORDINARY SHARE CAPITAL AT END OF YEAR	£4,830	£4,830	£4,830	£4,830	£4,830

board did not consider an interim statement should be issued. The business was seasonal and to issue figures for the first six months of the year (to March 31st) would be most misleading.

Out of Season

'Seasonal' the Mandleberg business undoubtedly is in the very fullest sense. Its name is closely associated with waterproofed fabrics and garments.

Nevertheless, accounting 'fashion' is towards more frequent reporting: half-yearly; even quarterly. The 'seasonal' excuse, we feel, is out of date.

In this context, it is interesting to note once again just what can be done, in the following reproduction of the Caterpillar Tractor Co's 'monthly' for August, and the eight-month period. Publication in America was dated September 19th. It was in our morning post on September 22nd:

Caterpillar Tractor Co today (September 19, 1961) reported the following results of operations:

	1961	1960
For the month of August:		
Profit per share of common	\$.20	\$.13
Sales	\$ 67,676,708	\$ 59,774,647
Profit after taxes	\$ 5,454,815	\$ 3,720,988
Profit percentage of sales	8.06%	6.23%

Eight months ended August:

Profit per share of common	\$ 1.36	\$ 1.03
Sales	\$ 499,255,216	\$ 510,324,130
Profit after taxes	\$ 37,506,123	\$ 28,568,777
Profit percentage of sales	7.51%	5.60%

Profit per share is computed on number of shares outstanding at the end of the respective periods.

Metal Industries

THE following is extracted from 'additional remarks' of Sir Charles Westlake, chairman of Metal Industries Ltd, at the annual meeting in Glasgow: 'You will recall that with the annual report and accounts, we published for the first time an analysis of constituent company profits. I have been much heartened by the unanimous welcome given to this publication which has been described by no less an authority than *The Accountant* as setting a "new standard of accounting information" and "providing an example for other companies to follow".

'Stockholders will appreciate that the disclosure of these figures creates problems, notably in the handing out of information to our competitors, but we are convinced that it is the right thing to do. Metal Industries is owned by its stockholders and they are entitled to as much information about the company as we can give.

'Later in the year, I shall be sending stockholders the usual interim announcement, by which time we should be able to discern, more precisely than we can today, the way the business is going.'

But by the time of the annual meeting, Sir Charles was able to state that the first four months had already produced profits which showed an improvement on the corresponding months of the previous year.

CITY NOTES

PRESSURE on industrial equities continues to be the outward sign of mistrust of the immediate economic and industrial outlook. The problem of the moment is to try and find any likely source of encouraging news. The September trade figures certainly did not provide it and neither has news on the industrial labour front.

There is now a general assumption that the current pressure on credit will remain at its present intensity until next spring - apart, that is, from some further possible technical downwards adjustment in Bank rate.

The extent to which 'hot money' is now flowing to London has made a further reduction in Bank rate a probability but even at 6 per cent, the rate would be at least two points above the highest comparable continental rate.

A combination of 'hot money', Bank-rate hopes and dullness in equities has helped to stiffen the gilt-edged market still further. For the first time for many months the banks are buyers of medium-dated stocks and there is also a firm flow of money towards the market on a temporary investment basis.

RATES AND PRICES

Closing prices, Wednesday, October 18th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate	
Aug. 14, 1958	4½%
Nov. 20, 1958	4%
Jan. 21, 1960	5%
June 23, 1960	6%
Oct. 27, 1960	5½%
Dec. 8, 1960	5%
July 26, 1961	7%
Oct. 5, 1961	6½%

Treasury Bills	
Aug. 11	£6 14s 8.51d%
Aug. 18	£6 14s 1.83d%
Aug. 25	£6 14s 0.12d%
Sept. 1	£6 14s 0.50d%
Sept. 8	£6 12s 10.81d%
Sept. 15	£6 11s 10.99d%
Sept. 22	£6 10s 6.51d%
Sept. 29	£6 11s 0.48d%
Oct. 6	£6 2s 5.80d%
Oct. 13	£6 0s 0.28d%

Money Rates	
Day to day	4½-6%
7 days	5-5½%
Fine Trade Bills	
3 months	7½-8½%
4 months	7½-8½%
6 months	7½-8½%
Bank Bills	
2 months	6½-6½%
3 months	6½-6½%
4 months	6½-6½%
6 months	6½-6½%

Foreign Exchanges	
New York	2.81½-½
Montreal	2.89½-90½
Amsterdam	10.16½-½
Brussels	140.18½-½
Copenhagen	19.38½-½
Frankfurt	11.26-½
Milan	1747½-½
Oslo	20.03½-½
Paris	13.84½-½
Zürich	12.16½-½

Gilt-edged	
Consols 4%	60½
Consols 2½%	39½
Conversion 5½% 1974	92½
Conversion 5% 1971	91½
Conversion 3½% 1969	84½
Conversion 3½%	52½
Exchequer 5½% 1966	97½
Funding 5½% 82-84	90½
Funding 4% 60-90	87½
Funding 3½% 99-04	57½
Funding 3% 66-68	83½
Funding 3% 59-69	81½
Savings 3% 60-70	78½
Savings 3% 65-75	60½
Savings 2½% 64-67	84½
Treasury 5½% 2008-12	82½
Treasury 5% 86-89	80½
Treasury 3½% 77-80	69
Treasury 3½% 79-81	67½
Treasury 2½%	38½
Victory 4%	93½
War Loan 3½%	54½

Reviews

Administrators in Action

Vol. 1, by F. M. G. WILSON. (George Allen & Unwin Ltd, London. 35s net.)

Apart from the few occasions when some lapse reaches the headlines of the popular Press, the public at large has little knowledge of the manifold activities of Government officials. Nor have even those who are better informed any real knowledge of the efficiency with which the public's servants perform their allotted task. The Royal Institute of Public Administration has sponsored a study, to be followed by another, to illustrate the day-to-day administrative processes. In this first volume, Professor Wilson expounds in considerable detail five case studies of the administrator at work.

In the field of central Government there are two cases, the one dealing with the posting of an Army officer who joined the civil service after service with the Regular Army and a rather longer essay on the Treasury's efforts to conclude an agreement with the Spanish Government on exchange clearing during the mid-1930s. From local government there is the illuminating episode of the transfer of Coventry's fruit and vegetable wholesale market from the city centre to the suburbs, and the remarkable, to say the least, story of the exploitation of the welfare services by a problem family over a period of years. For readers of *The Accountant* the most interesting essay deals with the installation of a centralized mechanized accounting system in the offices of the South Western Electricity Board and its repercussions on the staff.

Although there is rather a lot of detail in some of these essays, they are full of interest, but whether the average reader will be able to view the facts as dispassionately as Professor Wilson is questionable; the implications of these cases will bring little comfort to many readers.

Key to Company Law and Practice

Second edition, edited by T. BOLTON, A.C.I.S., and PERCY F. HUGHES, F.C.I.S. (Secretaries Journal Ltd, London. 15s net; 15s 7d post free.)

This is the second edition of this admirable 'Key'. Arranged in alphabetical sequence in each section are summaries of the law and practice relating to private and public companies, with a helpful use of contrasting print to direct attention to the major points. Whether this alphabetical arrangement is a help or not is a matter of opinion, since at the beginning of each section is an alphabetical index of the contents of that section, so that a more logical sequence within the section might well be more

useful to someone who wants to use the *Key* for studying. For quick reference, however, the merits of the method chosen are obvious.

Most of the text is based on the Companies Act, 1948, with notes of some case-law decisions and the requirements of the London Stock Exchange. In connection with the latter, the section dealing with allotment and transfer of shares is particularly helpful.

One criticism that might be levelled at a book which describes itself as a key to company law and practice is that there is no attempt to describe the practice applicable where a take-over bid is received by a company, or the advice on such matters available to directors and others. Nevertheless, this work may be recommended as a very helpful reference manual for practitioners and as a most useful aid to revision for students.

The Manager and the Organization

by ERIC MOONMAN. (Tavistock Publications Ltd, London. 21s net.)

This somewhat didactic but nevertheless readable study discusses management as a profession of which the main functions are threefold - policy making, supervision and techniques. On each of these aspects the author writes well, although it is becoming increasingly difficult to find anything very new to say about the problem of communication, delegation of authority or selection methods. The fact remains, however, that there is still scope for improvement in all these matters within most organizations as many of the examples and illustrations in this book reveal. A number of exercises and tests are included in the text so that the reader may test his own comprehension of the points made.

Agenda for a Free Society

Essays on Hayek's *The Constitution of Liberty*. Edited by ARTHUR SELDON. (Published by Hutchinson & Co (Publishers) Ltd, London, for the Institute of Economic Affairs. 25s net.)

Some readers may have read an earlier book by Professor Hayek entitled *The Road to Serfdom* which discussed the dangers to personal liberty inherent in the growth of the power of modern government. More recently the same writer has prepared a compendious study of the views of eighteenth- and nineteenth-century philosophers and others on the same subject in which he develops certain warnings for the present time. As with his earlier book, the new work has attracted much attention and a lot of criticism, as well as praise.

In view of the relevance of Professor Hayek's thesis to present-day problems in society the Institute of Economic Affairs invited ten persons of distinction to comment on Professor Hayek's thesis in so far as it touches upon their own fields of special interest. Among them are Professors Benham and Victor Morgan who write on taxation and monetary policy

respectively, Professor Acton who discusses the fundamentals of our political beliefs, Mr Graham Hutton on the individual's place in society, Sir Henry Slesser on trade unionism. The style and quality of the various essays differs quite widely, but they make interesting reading for the citizen who cares to reflect on the state of our modern constitution and the rights of the individual.

How to take Minutes

Seventh edition, by ERNEST MARTIN and G. K. BUCKNALL, A.C.I.S.(HONS.). (Sir Isaac Pitman & Sons Ltd. 10s 6d net.)

This is a thoroughly helpful and much-needed 'basic' book for all who are connected not only with companies but also with voluntary societies as secretaries, honorary or otherwise. It deals with more than the title suggests and goes into the preliminaries - e.g. settling an agenda, how to arrange a conference room, procedure, etc.

Especially helpful to many will be the series of specimen minutes, though an accountant might take a somewhat jaundiced view of the fact that those of a first meeting of directors omit the appointment of auditors, while solicitors are appointed at that meeting! However, this should not be taken as a

material objection to a very painstaking but most readable work. Amongst the subjects covered are minutes of municipalities, societies, associations, company directors and shareholders, and records of voting.

RECENT PUBLICATIONS

THE AUDIT AND THE PUNCHED CARD, by A. Wayne Corcoran, M.S., C.P.A. and Donald F. Istvan, D.B.A., C.P.A. xiii + 76 pp. 9 x 6. Card covers \$2.00 Bureau of Business Research, College of Commerce and Administration, The Ohio State University, Columbus, Ohio.

THE CITY OF LONDON AS A CENTRE OF INTERNATIONAL TRADE AND FINANCE, A series of Lectures delivered at the Fourteenth International Banking Summer School in the City of London and at Christ Church, Oxford, July 1961. 166 pp. 9 x 6. 20s net. The Institute of Bankers, 10 Lombard Street, London EC3.

THE THEORY OF CAPITAL, Proceedings of a Conference held by the International Economic Association, by Professor F. A. Lutz and Professor D. C. Hague. xiii + 415 pp. 9 x 6. 50s net. Macmillan & Co Ltd, London.

THE CORPORATE SECTOR IN INDIA: A Factual Presentation of Long- and Short-term Trends, by Raj K. Nigam, PH.D.(ECON.)(LONDON), and Shri N. C. Chaudhuri, M.SC. 194 pp. 9½ x 6. Board covers. Rs13.50nP. Research & Statistics Division, Department of Company Law Administration, Ministry of Commerce and Industry, Government of India, New Delhi.

THE ANATOMY OF WORK, by Georges Friedmann. Translated by Wyatt Rawson. xxiii + 203 pp. 9 x 6. 25s net. William Heinemann Ltd, London.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Problems of Small Practitioners

SIR, - I have asked presidents of district societies of the Institute to assist in the conduct of an inquiry into the problems facing the small practitioner. I am most anxious that the nature of this inquiry should be as widely known as possible amongst the profession and that practising members should co-operate to the fullest degree with their local district societies in providing information on, and suggesting remedies for, the problems which confront them.

I should be glad if you would publish this letter in your journal, together with the attached copy of my letter to the presidents of district societies.

Yours faithfully,

P. F. GRANGER, *President*,

THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES.

Moorgate Place,
London EC2.

To Presidents,

THE SMALL PRACTITIONER

I am writing to ask for your assistance in an inquiry into the problems and difficulties of the small practitioner.

I think this inquiry can best be carried out by each district society through a small subcommittee consisting of its president and say two members of the committee of the district society with the assistance, if required, of your Council member or members. I suggest that this committee should arrange to call meetings of small practitioners, whether members of your district society or not, in the area of the society - I am not overlooking those in the more remote parts of your area - and discuss with them the various problems they are meeting. Thereafter the committee of your society should, I think, consider the points raised and send a summary to the Institute with the comments of the committee; the summaries would then come before the District Societies Committee of the Institute. For the purpose of this inquiry I would assume that the 'small practitioner' might normally be defined as a firm with one or two partners though I would not wish you to restrict yourself to this rigid definition if you feel that there are others in your area who should be invited to take part.

I enclose a questionnaire [not reproduced - Editor] which it is thought covers most of the problems which the small practitioner might wish the Institute to examine and about which he may wish to propose remedies. The questionnaire does not pretend to be

exhaustive and I would welcome information and proposals on any other problems which may confront the small practitioner in your area. I regard it as important that members should have the fullest opportunity to express their views and, no less important, to propose their remedies.

There can be no objection to delegating to branches if you wish but if you do so I would prefer that any findings or recommendations from any branch should reach the Institute through the committee of the district society with its comments.

I am hopeful that out of this inquiry encouragement will be given to the formation of groups in parts of your area and that the small practitioner – and there is no harm in being small – will feel that he has an opportunity of telling us at Moorgate Place what we can do to help him.

Would you please let me know the results of your inquiries by January 31st, 1962. This letter may be read at the commencement of any meetings which you arrange or, alternatively, it may be circulated to those whom you may wish to meet.

Yours sincerely,
P. F. GRANGER, *President*.

[This correspondence is the subject of a leading article elsewhere in this issue. – Editor.]

Capital Employment

SIR, – I am at a loss to understand your statement in the leader of the issue of September 30th that 'the mechanism of the take-over bid has nibbled into this hoard ...'

If you invest in bricks and mortar, plant and machinery etc. you nibble into the hoard. But surely a take-over bid is merely a transfer in the ownership of part of the hoard. So much as is invested by the 'taker-over' is released to the 'taken-over'. In other words there is no change in the amount of the hoard.

Or have I misunderstood you?

Yours faithfully,
Leeds. ALEC V. PARKER, F.C.A.

[Our 'hoard' and that of Mr Parker are not quite the same. We agree entirely that the action of the 'take-over' does nothing to increase or decrease the total amount of capital in circulation. What it may do to the individual company is to nibble into the hoard of capital which is employed in assets which are not strictly productive. Take-over itself has no effect on the hoard but the reason for making some take-overs is in order to redeploy part of the hoard. This is the point we were trying to make. – Editor.]

Tax on Business Car

SIR, – Having read and thoroughly enjoyed Mr A. B. Snow's series of articles (September 9th, 16th and 23rd issues), I am prompted to write on a point arising out of paragraph 86. If I understand it aright, the client there suggests that a sale and repurchase of his car would have established a new 'original cost' on which the figure of 9 per cent would be calculated.

Now in a recent case with which I have been concerned, a client bought, for £900, a second-hand luxury car of which the original list price was £3,000. The Inspector stated quite categorically that the annual value of use must be computed on 'the original cost as new' and not on the actual cost to my client. Can any of your readers indicate experience of a different attitude on the part of the Inland Revenue. The injustice of this decision has rankled ever since, and I would welcome any comment.

Yours faithfully,
A.C.A.

[This is purely a question of fact on which the taxpayer is entitled to appeal to the Commissioners. Incidentally, the Chancellor of the Exchequer has instructed the Inland Revenue to increase the percentage from 9 to 12½ but this is still subject to the decision of the Appeal Commissioners, where an appeal is taken to them. – Editor.]

Balance of Payments and Tax Relief

SIR, – Why is no tax relief given for exporting?

This could be done simply on a proportional basis. It should apply to all Schedule D, Case I and II assessments. The Schedule D assessment would be made in the ordinary way. And then if, say, half the company's trade was done abroad, the tax assessment could be reduced by 50 per cent. If only a quarter of the business were done abroad, the assessment would be reduced by 25 per cent, and so on. This would give a tremendous boost to exporting.

If a company did all its trade overseas it would pay no tax. Somebody is bound to grumble at this. So the relief could be varied, according to the need for exports, to include, for instance, exports up to 50 per cent or 40 per cent or whatever may be considered a suitable figure.

An argument against such a relief is that subsidiary interests would get no tax concession. That is, the makers of the bulbs, tyres, nuts and bolts of the car exported would receive no benefit. This is not actually true; they would benefit by increased trade. And the Exchequer would recoup some of the lost tax in giving the relief from the increased trade. Also the subsidiary interests do not run the additional risks arising from exporting.

Finally, as business in this country claims to be done primarily by private enterprise, subsidiary interests may be allowed to come to an arrangement with the principal exporter to pass some of the tax concession, or else they can form an export company with the principal exporter; thus helping to finance the exports, take some of the risk, and gain some of the benefit of tax relief.

It seems to me that some such incentive to exporting is long overdue.

Yours truly,
London W6. V. H. BOWLES, A.C.A.

LAW REPORT**HIGH COURT OF JUSTICE**

(Chancery Division)

**CHARTERED ACCOUNTANT REFUSED
RELIEF****Lloyd v. The Institute of Chartered
Accountants in England and Wales**

Before MR JUSTICE WILBERFORCE

[The decision in this case, given as we went to press on October 11th, was briefly noted in last week's issue. We now give a more detailed report of the judgment.]

His lordship refused to grant an injunction restraining the Institute by its Disciplinary Committee or Council from hearing or otherwise determining the question whether the plaintiff, Mr Anthony Henry Lloyd, of Stanley Park Road, Carshalton Beeches, Surrey, had acted discredibly under the provisions of Rule 21 (3) of the Institute's Supplemental Royal Charter dated December 21st, 1948.

Mr C. A. Settle, Q.C., and Mr Kevin Winstain appeared for Mr Lloyd; Mr Roger Parker, Q.C., and Mr Raymond Walton appeared for the Institute.

JUDGMENT

His lordship, giving judgment, said that what was being sought in the motion in effect, was the withdrawal of the dispute between the plaintiff and the Institute from the Institute's domestic tribunal and the determination of that dispute by the Court.

The plaintiff was a chartered accountant and a member of the Institute. He had apparently been carrying on his profession outside this country for a number of years and, in 1959, had sought and obtained employment here. The company with which he obtained employment and with which he was at present employed was George S. May International Co G.B. That company appeared to be a considerable concern carrying on a business described as that of management consultants. Judging by the evidence, it advertised its activities on a considerable scale and it was possible that it offered to carry out certain types of work with which accountants were often occupied. Having obtained employment with the company, the plaintiff made a return to the Institute of his employment in July 1959, and that return was duly received and filed by the organization of the Institute. In August 1961 a complaint was preferred against the plaintiff in respect of his professional activities. The complaint alleged that the plaintiff was guilty of acts or defaults discreditable to a member of the Institute in that he was employed by an organization which carried on its business as consultants or advisors in management, costing and methods of business offered its services by advertising, so as to render himself liable to exclusion from the Institute.

Only Present Issue

As the matter now stood the only issue which the Court had to decide was the question whether the Disciplinary Committee of the Institute could give the plaintiff a fair and unbiased hearing. Rule 21 (3)

of the Supplemental Charter of the Institute provided that a member who was guilty of any act or default discreditable to a member of the Institute should be liable to be excluded or suspended. The handbook of the Institute stated that there was no list of matters which were discreditable but from time to time the Council of the Institute issued statements for the guidance of members. In 1947 the Council made a statement that it was desirous of making it clear that if a member was engaged or employed in any occupation not inconsistent with that of a public accountant the rules of professional conduct must be observed. With regard to advertisement, it was plain that, as in other professional bodies, advertising had always been strongly discountenanced by the Institute.

In November 1960 a circular was sent out by the Council which stated that members rendered themselves liable to disciplinary action if they accepted employment with organizations which advertised their services as consultants or advisors in management, costing methods, business organization and methods. This statement was subsequent to the date on which the plaintiff became a member of the Institute, while the statement of 1947 was prior to that date. On December 15th, 1960, another document was sent out by the Council warning members against recommending to the clients the services of May's, and stating that for the reason that May's advertised its services a member would render himself liable to disciplinary action if he took employment with it. It was on the existence of those two circulars in the main that the plaintiff relied for support of his case that it was unlikely that the Disciplinary Committee could give an unbiased consideration to his case.

For Guidance Only

The Court was asked here to say, in advance, that the possibility of bias rendered it proper for the Court to take steps to prevent the tribunal, which the parties had contractually agreed upon, from dealing with the matter. It was for the plaintiff to make out a strong case for the likelihood of bias existing. If the Court was to intervene the result would be that, instead of the issue being decided by the domestic tribunal which the parties had contractually bound themselves to accept, the issue would be determined by the Court. The Courts had accepted that matters such as these were matters which were properly to be dealt with by a man's professional colleagues. The plaintiff said that having regard to what had taken place it was almost impossible for the domestic tribunal to bring its mind to bear fairly on the matter which it would have to decide. The type of bias alleged was of a limited kind. It was not alleged that the Council had any pecuniary interest in the dispute nor that they were prosecutors as well as judges. What was said was that the committee, being composed of members of the Council, was, having regard to what happened in 1960, likely to be biased. The complaint was drafted in close relation to the provisions of Rule 21 (3) of the Supplemental Charter and the statement of 1947. That statement was nothing more than a statement by way of guidance and was not in any way a statement as to the decision of any particular matter. The circular of November 1960 was a warning issued by the Council by way of guidance to its members as to the possible consequences of a particular type of action. It was wholly within the Council's functions. It was

not a statement that accepting employment of the kind mentioned was or was not such as to render a member liable to exclusion. It merely stated that if employment of this kind was accepted a risk of disciplinary action being taken existed. Then there was the letter of December 15th, 1960, which went farther and specifically referred to May's. As regards members of the Institute, to whom this document was addressed, it fell within the same category as the circular of November 1960. It was the kind of document issued by the Council for the information of its members. It warned them that if they took employment with this company they rendered themselves liable to have disciplinary action taken against them. The Council was doing little more than its duty in warning members as it did because, from the terms of the bye-laws, it was plain that the secretary had a duty to take action if the relevant facts were drawn to his attention. The Council were not saying that by accepting employment with May's members would be liable to be expelled. His lordship therefore took the view that by these two circulars the Council had not in any way taken up a position on the merits which amounted to a prejudgment of the issue. It had not disqualified itself or its members who might sit on the Disciplinary Committee from fairly considering the question whether what might be proved against the plaintiff was discreditable conduct.

Hostility

There was one other circumstance which had given him some concern and that was whether it could not be said, particularly in relation to the circular of December 15th, 1960, that the Institute and its Council had shown an attitude of animus and bias against May's which was likely to interfere with the fair determination of the issues between the Institute and the plaintiff. It must be accepted that the Council disapproved strongly of the activities of this particular company. They had in the first paragraph of the letter of December 15th, 1960, told members that they must not recommend to clients the use of the services of this company. That paragraph led to proceedings for libel between the company and the Institute. It would not be realistic to assume otherwise than that relations between the Institute and the company were hostile. Seeing how the case against the plaintiff individually had developed and accepting the evidence of the secretary of the Institute that the action taken against the plaintiff was not related, as regards motive, to the struggle with May's and in particular that the only reason why action against the plaintiff was not started earlier was that the Institute did not notice the fact of his employment by the company and that similar action would have been taken whatever his individual employer might have been, ought his lordship to assume as likely or probable that the Disciplinary Committee was incapable of giving the plaintiff a fair hearing? The only possible inference of bias arose out of what was known or assumed to be the Council's attitude towards May's. It seemed to his lordship that it would be wrong to say that an employee could not be given a fair trial in respect of his individual professional conduct in any case where there was an attitude of hostility against his employer. There was no evidence of any particular bias against Mr Lloyd himself. He came to the conclusion that he should leave the tribunal, which the parties had con-

tractually accepted, to act. He proposed to dismiss the motion with costs.

Solicitors: Messrs Potel & Co; Messrs Linklaters & Paines.

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TAXATION CASE

A full report of this case will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

Hutton v. Hutton (No. 2)

In the Court of Appeal – November 1st, 1960
(Before Lord Justice ORMEROD, Lord Justice WILLMER,
and Lord Justice UPJOHN)

Income tax – Separation agreement for a stated monthly sum – Supplemental agreement to pay tax free – Supplemental agreement declaring parties' intention – Whether supplemental agreement enforceable – Income Tax Act, 1952, Sections 169, 170.

In March 1954, a husband and wife entered into a separation agreement under seal, by which the former covenanted to pay the latter 'the monthly sum of £30' during their joint lives. The husband paid the £30 till January 1955. In that month the wife decided to take employment, and she consulted her solicitor before doing so. The solicitor saw that the husband was entitled to deduct tax from the £30; and for the protection of his client he prepared a supplemental agreement, which the husband read through and signed without separate independent legal advice. The supplemental agreement was not under seal, and was endorsed on the back of the original deed. It provided for the £30 to be paid tax free, and it declared that the separation deed had always been interpreted by the parties as if the amendment had been originally in it.

The husband continued to pay £30 a month until the middle of 1958, when the Inland Revenue claimed from him £360 in respect of tax notionally deducted from the payments to his wife. The husband's income from all sources was £758 a year, and therefore he had an insufficient fund of taxed income to cover the £30 a month and to enable him to retain the tax notionally deducted, and part of the tax had to be accounted for to the Inland Revenue. The husband then stopped paying the £30 to his wife, and she claimed to recover that sum in the County Court. The husband allowed the matter to go by default, and judgment was given against him. In December 1959, the wife claimed a further £384 arrears of annuity and judgment in the County Court was given in her favour on April 5th, 1960. The husband appealed against this judgment.

Held: dismissing the appeal: the supplemental agreement was executed for good consideration, namely the removal of doubt, and it was enforceable against the husband, for the wife could have taken proceedings for rectification of the deed, and her refraining from doing so on condition that the supplemental agreement was executed was good consideration.

Universities and the Accountancy Profession

CONFERENCE AT BRISTOL UNIVERSITY

Normally every three years a conference of the Joint Standing Committee of the Universities and the Accountancy Profession is held to enable members of the joint standing committee itself and of local joint committees to review the working of the 'universities scheme', as it is called, and to discuss future developments. The sixth conference was held this year at Burwalls, a hall of residence of the University of Bristol, from Friday, September 22nd to Sunday, September 24th, under the chairmanship of Dr J. M. Whittaker, Vice-Chancellor of the University of Sheffield and Chairman of the Joint Standing Committee. The following were present:

Birmingham: Mr P. Coates, Professor D. Cousins, Mr A. S. Maddison.

Bristol: Professor L. R. Amey, Messrs S. V. P. Cornwell, C. Croxton-Smith, B. T. J. Magee, C. H. Maggs, M. F. Pearce, I. P. G. Ray, W. E. Stepto.

Durham: Messrs N. T. O'Reilly, R. P. Winter.

Hull: Messrs E. Edwards, P. Helps, Miss P. E. M. Ridgeway.

Leeds: Mr A. G. Witts.

Liverpool: Messrs E. T. Denton, J. L. Hughes, G. Clayton.

London: Professor W. T. Baxter, Messrs H. C. Edey, R. P. Matthews, L. W. Robson.

Manchester: Messrs V. A. Bell, G. W. Murphy.

Nottingham: Mr A. L. Morell, Dr M. D. Skillicorn, Mr E. Spencer.

Sheffield: Messrs H. Grant Bird, C. Copley, J. W. Richardson, C. A. Whittington-Smith.

Southampton: Messrs H. Hart, I. D. Kingsbury, A. S. Watson.

Wales: Messrs J. F. Mackeson, C. C. Magee, S. C. Parris, T. Pickard.

In addition the following members of the Joint Standing Committee were also present: *Representing The Institute of Chartered Accountants in England and Wales*, Mr P. F. Carpenter (Vice-President), Mr W. G. Densem, Mr W. B. Nelson; *Representing The Association of Certified and Corporate Accountants*: Mr G. L. Barker (President), Mr J. E. Harris, Mr F. C. Osbourn (Secretary), Mr V. J. Oxley.

Mr Alan S. MacIver, Secretary of the Joint Standing Committee, was unfortunately unable to attend and Mr W. M. Allen, an Under-Secretary of the Institute, deputized for him.

Four Sessions

The first session held on the Friday evening dealt mainly with such matters as the recruitment of graduates to the profession, the granting of exemption from the Intermediate examination, the effectiveness of local joint committees, training schemes in industry organized by the Association, and university developments in the teaching of accounting (including business studies). This session gave an opportunity for Mr H. C. Edey, a member of the Advisory Council for Education for Management, to speak briefly on the

plans of the Ministry of Education for higher commercial education.

The second and third sessions were devoted to talks by two guest speakers, Mr E. R. Dew, Principal and Director of Legal Studies, The Law Society's School of Law, and Mr J. W. Dallachy, Convenor, the Universities Liaison Committee of The Institute of Chartered Accountants of Scotland, on training methods of The Law Society and of the Scottish Institute respectively. Discussion on both occasions enabled comparisons and contrasts to be made with the methods adopted by the English Institute and by the Association, and in particular, with the proposals in the English Institute's Parker Committee Report on education and training.

The last session of the conference was devoted to a general discussion of points raised in the latter report, which was received by the Council of the Institute in April 1961 and has been referred to its committees and to the committees of district societies. The discussion gave an excellent opportunity for representatives of universities and of the profession to reach a fuller understanding of the complementary nature of education and instruction, and of the aspects in which both can best fulfil their particular functions. It is noteworthy that during the three years 1958-60, 852 graduates have registered with the two bodies participating in the universities scheme - 776 as articulated clerks with the Institute and seventy-six with the Association. These graduates were from twenty-two universities in England, Wales, Scotland and Northern Ireland.

Social Functions

Some members of the conference took the opportunity of a free Saturday afternoon to visit the Bristol Zoological Gardens before joining their colleagues at a sherry party in the Senior Common Room of the University at which Sir Alfred Pugsley, Pro-Vice-Chancellor of the University, acted as host. Later that evening an informal conference dinner was held in Burwalls at which the Joint Standing Committee was able to return hospitality. The guests included Sir Alfred Pugsley, the Very Reverend D. E. W. Harrison (Dean of Bristol), Mr T. R. Johnson (City Treasurer), Mr H. C. Butterfield (Registrar and Secretary of the University), Mr A. M. Graves (Warden of Burwalls), Mr W. E. Dewdney (President of the Bristol and West of England Society of Chartered Accountants), and Mr Russell A. Leitch (President of the Bristol and District Society of The Association of Certified and Corporate Accountants).

On Sunday morning, members attended a special service in the Lord Mayor's Chapel. The service was conducted by the Right Reverend C. J. G. Saunders, M.A., Chaplain to the Lord Mayor of Bristol, and Dr Whittaker read the lesson.

CHARTERED ACCOUNTANTS' DINNER IN LEICESTER

President's Comments on the Value of Professional Training

Speaking at the annual dinner of the Leicestershire and Northamptonshire Society of Chartered Accountants, held in Leicester last Monday, Mr P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales, emphasized the great need for trained men with an objective approach to industrial problems—problems which would increase whether or not Britain entered the Common Market.

Mr Granger was replying to the toast to the Institute, proposed by Sir Donald Perrott who, he recalled, had presented 'a stimulating address' at the Summer Course in Cambridge last month.

35,000 Members

The President then went on to refer to the Institute's large membership. As a result of integration and natural expansion, he said, the Institute now had 35,000 members. Behind this number were 14,000 articled clerks. The intake of students last year was about 3,000. This year it looked like being higher. As a profession they were going ahead.

A committee appointed by the Council of the Institute had recently made a thorough study of education and training and had produced an erudite report. Of a membership of 33,000 assumed for the study, approximately 10,000 were in public practice, and responsible for training the future intake. Six thousand were stated to be in retirement or abroad, said the President, while 17,000 were working in chartered accountants' offices or in industry. It was not known exactly how many of the 17,000 were on the staff of professional firms but the figure was estimated at between 5,000 and 10,000, leaving the rest in outside employment, many with manufacturing firms. It could therefore be seen that one-third to a quarter of the Institute's total membership was in practice, one-fifth in retirement or abroad and one-half with professional firms or in industry.

The destination of members when they qualified, went on the President, was of great importance. It was often difficult to decide whether they should stay on in the practising side after qualification or move to other spheres.

It was important, however, to train chartered accountants to go into industry. He was a practising man himself but saw the need to go into industry as the Common Market developed. Young men should have clear-cut views on business problems. They could make a definite contribution to the country's future prosperity.

Proposing the toast, Sir Donald Perrott said that at the Institute's recent Cambridge course he had commented on the jargon used by accountants. He understood that the Inland Revenue used an even more complex line in jargon and his explanation was that

Inland Revenue officials did this out of consideration for their accountancy friends. 'They had refrained from simplicity so that accountants might live,' he added, amid laughter.

Great Opportunities

The accountancy profession, declared Sir Donald, now had great opportunities for integrating with industry. He wanted the profession to look beyond audit and taxation and went on to say:

'The Institute can assist accountants with limited resources. Its Council should produce a brochure setting out the services it can provide. It has a wonderful opportunity if it gets beyond the audit and taxation stage. The Institute is coming out with views of public problems and giving a lead. If it continues this progress it will be good for your status in industry and good for the country.'

'I hope the Institute goes from strength to strength. It now has a bit between its teeth and will certainly progress.'

Sir Donald amused the company with an analogy in the form of an anecdote about an employer who had called together four men whom he asked to discover the height of a church tower. 'A physicist', he said, 'used a barometer for taking readings of pressure at top and bottom to arrive at the height. A production manager picked up a brick and timed its fall from the tower, calculating the height according to a formula. A maintenance foreman simply dropped down a plumb-line. But the audit clerk consulted the original church records and the verger had given him the answer.'

Mr C. R. Riddington, F.C.A., President of the Leicestershire and Northamptonshire Society, proposed the toast of the guests. In the course of his remarks he said that the Society's committee had received a request from Leicester's Town Clerk to help provide civic plate as most of the original plate had been lost when sold by the Corporation in 1836. The Society, he said, had agreed to contribute pieces towards the new collection.

Mr Sebag Shaw, the Recorder of Ipswich, who replied, drew parallels between his profession and accountancy. He said: 'Our function is similar—to keep order, keep things tidy, and work on a basis of truth which is sometimes hard to reveal.'

The Company

Among the guests present were the Deputy Lord Mayor of Leicester, Alderman Mrs Dorothy Russell; the Bishop of Leicester, Dr Ralph Williams, D.D.; and

Messrs G. F. Ansell, F.C.A. (*Chairman, London and District Society of Chartered Accountants*); E. A. Bland, D.S.O., F.C.A. (*President, East Anglian Society of Chartered Accountants*); C. E. Coe, F.C.I.S. (*Chairman, Chartered*

Institute of Secretaries, Leicester and District Branch; E. Cross, F.C.A. (President, *The Nottingham Society of Chartered Accountants*); W. E. Dewdney, F.C.A. (President, *The Bristol and West of England Society of Chartered Accountants*); N. G. Durham (President, *The Northampton County Chamber of Commerce*); C. A. Evan-Jones, M.B.E. (Under-Secretary, *The Institute of Chartered Accountants in England and Wales*).

Messrs W. Hare, M.A., F.C.A. (President, *Manchester Society of Chartered Accountants*); F. C. Harrison (President, *The Northamptonshire Law Society*); S. J. Kent, F.I.M.T.A., A.S.A.A. (City Treasurer of Leicester); P. C. Lloyd, F.C.A. (President, *Liverpool Society of Chartered Accountants*); G. J. Mason, F.C.A. (President, *Birmingham and District Society of Chartered Accountants*); K. Murgatroyd (Presi-

dent, *The Institute of Bankers, Leicester Centre*); S. Perrin, F.C.W.A. (President, *The Institute of Cost and Works Accountants, Leicester and District Branch*).

Messrs D. G. Ridgway, B.A. (H.M. Inspector of Taxes, *Leicester District*); C. J. Scott, F.A.C.I.I. (President *The Insurance Institute of Leicester*); Edgar T. Shepherd, F.C.A. (President, *South Wales and Monmouthshire Society of Chartered Accountants*); R. G. Slack, F.C.A. (President, *The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); A. G. Thomas, F.C.A. (President, *Sheffield and District Society of Chartered Accountants*); F. N. Upchurch, A.M.I.E.C., M.INST.F. (President, *The Leicester and County Chamber of Commerce*); A. S. Watson, F.C.A. (President, *South Eastern Society of Chartered Accountants*).

C. A. R. B. S.

Chartered Accountants Retirement Benefits Scheme

The scheme has now been in operation since June 1st, 1957, and reproduced below are the fourth published accounts covering the year ended May 31st, 1961.

Income and Expenditure Account for the year ended May 31st, 1961

1960 £		£	£	1960 £		£	£	£
	BENEFITS				MEMBERS' CONTRIBUTIONS			
301	Annuities	446		75,617	Section A	251,772	319,818	68,046
1,031	Contributions returned on death	4,926		18,753	Section B	52,887	72,489	19,602
				2,425	Section C	7,225	9,800	2,575
1,332		5,372		49,956	Section D	150,846	200,304	49,458
1,330	Less Claims on insurers	5,360				<u>£462,730</u>	<u>£602,411</u>	<u>139,681</u>
2	Interest borne by the scheme		12	146,751				
				144,042	Less Premiums to insurers			137,069
	ADMINISTRATION EXPENSES			2,709	Commission earned and retained			2,612
2,095	Scheme secretaries' remuneration	2,020		391	DEPOSIT INTEREST			523
750	Services of Institute staff	750		42	BALANCE, being excess of expenditure over income			
250	Audit fee	250						
35	Printing, stationery and sundries	64						
10	Professional charges							
3,140			3,084					
	Balance, being excess of income over expenditure		39					
£3,142			<u>£3,135</u>					<u>£3,135</u>

Balance Sheet - May 31st, 1961

1960 £		£	£	1960 £		£	£
	LIABILITIES				CURRENT ASSETS		
4,750	The Institute of Chartered Accountants in England and Wales	4,750		235	Debtors		500
253	C.A.E.S.S. current account	522		20,000	Deposits		30,000
38,453	Insurers	34,855		21,747	Bank balances		8,627
1,600	Other creditors	1,748					
15	Contributions in suspense less payments thereout to insurers	507		41,982			39,127
205	Beneficiary				INITIAL EXPENSES		5,140
45,276			42,382		Less Excess of income over expenditure:		
					Balance at May 31st, 1960	1,846	
	On behalf of Chartered Accountants Trustees Ltd as trustees,				Add Surplus for year to date	39	1,885
	S. H. GILLET } Directors		3,294				
	DOUGLAS A. CLARKE }						
£45,276		<u>£42,382</u>	<u>£45,276</u>				<u>3,255</u>
							<u>£42,382</u>

REPORT OF THE AUDITORS TO THE TRUSTEES OF THE CHARTERED ACCOUNTANTS RETIREMENT BENEFITS SCHEME

We have examined the above balance sheet and income and expenditure account which in our opinion respectively give a true and fair view of the state of the Scheme's affairs as at May 31st, 1961, and of its income and expenditure for the year ended on that date.

July 26th, 1961.

L. W. BINGHAM } Chartered
LEONARD PELLIS } Accountants.

C. A. E. S. S.

The Chartered Accountants Employees
Superannuation Scheme

FOURTH REPORT OF THE COMMITTEE

The contributions receivable in the year ended May 31st, 1961, amounted to £75,702 compared with £62,273 for the previous year. Members contributing to the Scheme as at May 31st, 1961, totalled 1,011 and the number of firms participating was 213. In addition to contributing members, sixty-seven members who have left the service of participating employers have retained paid-up pension rights in the Scheme. The detailed figures are as follows:

	Males	Females
Total contributing membership as at May 31st, 1960	703	107
Entrants during the year to May 31st, 1961	283	35
<i>Less</i>		
Withdrawals (including deaths) during the year	108	9
Total existing contributing membership at May 31st, 1961	878	133
Total number of members retaining rights in the Scheme but whose contributions have ceased	65	2
Total number of members at May 31st, 1961	943	135

Apart from those members dying before pension age, the withdrawals during the year arose through members leaving the service of participating firms. Refunds of contributions amounting in total to £3,052 were made to those members whose contributions were less than £100 thus entitling them to exercise their option to take a refund. The contribution suspense accounts of the participating firms were credited with the appropriate amounts under the provisions of Rule 15.

The death benefits payable during the year, including the return of contributions with interest, amounted to £2,209, part of which was recovered from the life office with which a proportion of the death benefit under the Scheme has been reinsured.

In the report submitted to the last annual general meeting attention was drawn to the fact that the National Insurance Act, 1959, was due to come into force during the ensuing year and that steps were being taken to enable firms participating in C.A.E.S.S. to contract out of the graduated part of the new State Pension Scheme. Necessary amendments to the Rules have been made and 106 firms have taken advantage of the arrangements.

The substantial increase in the membership of the Scheme during the year is in part a reflection of the desire of employers to provide for their employees more favourable pensions than those to be obtained under the National Insurance Act, 1959. It is hoped that members will continue to bring the advantages of the Scheme to the notice of their colleagues so that the growth in the membership may continue.

During the year two members' committee-men, Mr P. J. Mellows and Mr G. P. Townend, retired from the Committee on becoming partners in their firms. These vacancies have been filled by the members' committee-men under Clause 25 (12) of the Trust Deed by the appointment of Mr A. T. Steele and Mr J. W. Shedd who retire at the annual general meeting and being eligible offer themselves for re-election.

An employers' committee-man, Mr E. W. P. Broad, resigned from the committee during the year. The Council of the Institute appointed Mr G. P. Townend to fill the vacancy.

Mr R. E. Ward retires from the Committee under Clause 25 (11) of the Trust Deed and is eligible for re-election.

R. W. L. EKE,
Chairman.

Fund Account for the year ended May 31st, 1961

1960 £		£	£	1960 £		£	£	£
	BENEFITS			62,273	CONTRIBUTIONS		75,702	
2,108	Lump sums on death	2,209		5,343	Less Withdrawals	6,718		
600	Less Claims on insurers	150		223	Income tax relative thereto	298		
				588	Reinsurance of death risk	362		
1,508	Proportion borne by the scheme		2,059	6,154			7,378	
	ADMINISTRATION EXPENSES			56,119				68,320
1,243	Scheme secretaries' remuneration	1,688			INVESTMENT INCOME			
250	Services of Institute staff	250			Gross	7,290		
294	Professional charges	620			Less Irrecoverable income tax	985		
13	Medical fees	47		3,792				6,305
220	Audit fee	260			SURPLUS on realization of investment			358
139	Printing, stationery and sundries	328						
2,159			3,193					
56,244	BALANCE, transferred to Accumulated Fund		69,735					
£59,911			£74,987	£59,911				£74,987

Balance Sheet – May 31st, 1961

1960 £		£	£	1960 £		£	£
	ACCUMULATED FUND				INVESTMENTS at cost per schedule		
	Balance at May 31st, 1960	125,275		117,418	(Value at middle market prices £276,429)		186,815
	Add Balance of fund account for the year	69,735		(£150,224)			
125,275			195,010				
	CURRENT LIABILITIES				CURRENT ASSETS		
845	Beneficiaries	2,209		253	C.A.R.B.S. current account	522	
765	Other creditors	2,178		73	Prepayments	73	
25	Contributions in advance	41		323	Debtors	268	
750	Contributions in suspense	860		3,268	Contributions receivable	5,110	
				6,400	Bank balances	7,585	
2,385		5,288		10,317			13,558
	DEFERRED LIABILITY			4,675	INITIAL EXPENSES		4,675
	Loan from The Institute of Chartered Accountants in England and Wales to meet initial expenses which the trustees intend to repay when surplus funds are available	4,750			On behalf of Chartered Accountants Trustees Ltd as trustees.		
4,750					S. H. GILLETT } Directors		
	NOTE: The first actuarial valuation of the Fund is due to be made not later than July 1962.				DOUGLAS A. CLARKE }		
£132,410		£205,048	£132,410				£205,048

REPORT OF THE AUDITORS TO THE TRUSTEES OF THE CHARTERED ACCOUNTANTS EMPLOYEES SUPERANNUATION SCHEME
We have examined the above balance sheet and fund account which in our opinion respectively give a true and fair view of the state of affairs of the Fund as at May 31st, 1961, and of the relevant transactions for the year ended on that date.

July 26th, 1961.

L. W. BINGHAM } Chartered
LEONARD PELLIS } Accountants.

Schedule of Investments May 31st, 1961

1960 £		Holding	Cost £	Middle Market Value £
4,990	FIXED INTEREST			
2,966	3½ per cent Funding Stock, 1999-2004	£7,500	4,990	4,768
	Associated Electrical Industries Ltd, 6 per cent Debenture Stock, 1978-83	£3,000	2,966	2,805
			7,956	7,573
	VARIABLE DIVIDEND			
	Banking and Insurance			
2,965	Commercial Union Assurance Co Ltd 5s shares	2,000	4,301	7,427
4,082	Eagle Star Insurance Co Ltd Ordinary 10s shares	1,800	4,082	11,900
—	Legal and General Assurance Society Ltd. Ordinary 5s Shares	300	9,215	10,776
5,015	National Provincial Bank Ltd £1 Shares	2,000	5,775	9,100
—	Northern & Employers Assurance Co Ltd Ordinary £1 Shares	1,500	8,580	10,793
—	Prudential Assurance Co Ltd 'A' 4s Shares	300	7,329	8,025
			39,282	58,021
	Investment Trusts			
4,406	Anglo-American Securities Corporation Ltd Ordinary 5s Shares	6,000	4,406	7,425
4,895	Atlas Electric & General Trust Ltd Ordinary 5s Shares	17,136	4,895	12,582
5,561	British Investment Trust Ltd Ordinary 5s Shares	5,625	5,485	10,668
4,952	Continental Union Trust Co Ltd Ordinary 5s Shares	7,000	4,952	6,359
5,272	Edinburgh Investment Trust Ltd Deferred Stock	£3,000	5,272	7,200
4,537	English and Caledonian Investment Co Ltd Ordinary 5s Shares	7,071	4,537	9,192
—	Foreign & Colonial Investment Trust Co Ltd Ordinary Stock	£5,000	12,557	15,563
—	Guardian Investment Trust Co Ltd Ordinary 5s Shares	10,000	8,677	11,122
7,782	International Investment Trust Ltd Ordinary 5s Shares	8,000	11,147	13,000
6,229	Lake View Investment Trust Ltd Ordinary Stock	£1,250	6,229	7,754
4,411	London Trust Co Ltd Deferred Stock	£1,500	4,411	9,139
—	Scottish National Trust Co Ltd Ordinary Stock	£2,500	9,715	11,342
4,956	Scottish Western Investment Co Ltd Ordinary Stock	£1,800	4,956	8,100
—	Second Scottish Investment Trust Co Ltd Ordinary Stock	£500	6,530	8,625
5,138	Sphere Investment Trust Ltd Ordinary 5s Shares	12,000	5,138	11,501
4,998	Trustees Corporation Ltd Ordinary Stock	£1,500	4,998	11,850
5,278	United States Debenture Corporation Ltd Ordinary Stock	£3,000	5,278	10,500
4,878	Witan Investment Co Ltd Ordinary £1 Shares	1,950	4,878	6,589
			114,061	178,511
	Industrial			
3,916	Great Universal Stores Ltd 'A' Ordinary Stock	£475	3,916	5,605
2,955	Imperial Chemical Industries Ltd Ordinary Stock	£2,100	3,230	8,085
7,961	Imperial Tobacco Co (of Great Britain & Ireland) Ltd Ordinary Stock	£2,300	7,961	7,619
3,993	Shell Transport & Trading Co Ltd Ordinary Stock	£600	3,993	4,590
5,282	Stewarts and Lloyds Ltd Ordinary £1 Shares	2,500	6,416	6,425
			25,516	32,324
£117,418			£186,815	£276,429

Notes and Notices

PROFESSIONAL NOTICES

MESSRS COHEN, ARNOLD & Co, Chartered Accountants, of Ling House, Dominion Street, London EC2, announce that they have admitted as a partner, Mr D. DAVIS, B.SC., A.C.A. The style of the firm remains unchanged.

MESSRS PRICE WATERHOUSE & Co and Messrs CARMAN & BRUCE announce the formation of a joint firm practising in Jamaica under the name of PRICE WATERHOUSE & Co, the resident partners being Messrs H. C. NUNES, F.C.A., G. W. N. DOWNER, F.C.A., R. C. HUMPHRIES, F.C.A., J. D. ASHENHEIM, A.C.A., and J. F. L. LORD, A.C.A. The resident partners will also continue to practise under their old firm name of CARMAN & BRUCE.

MESSRS PRICE WATERHOUSE & Co and Messrs HUNTER, SMITH & EARLE announce the formation of a joint firm practising in Trinidad and Tobago under the name of PRICE WATERHOUSE & Co, the resident partners being Messrs L. E. ROPER, F.C.A., T. J. HORT, F.C.A., F. L. DE VERTEUIL, F.C.A., and G. W. SMITH, F.C.A. The resident partners will also continue to practise under their old firm name of HUNTER, SMITH & EARLE.

MESSRS PRICE WATERHOUSE, PEAT & Co, Pakistan firm, announce that they have admitted to partnership Mr DENIS JOHN BELTON, B.COMM., A.C.A., and Mr REZAUR RAHMAN, A.S.A.A. Mr BELTON and Mr RAHMAN are resident partners in Chittagong and Dacca respectively.

MESSRS, SHARPE FAIRBROTHER & Co, Chartered Accountants, of 49 Bedford Row, London WC1, announce with deep regret the death of their senior partner and founder, Mr SIDNEY SHARPE, F.C.A., on October 5th. The practice will continue to be carried on at the above address under the same name.

MESSRS HULL & CHAPMAN, Accountants, announce that their address is now 17 Queen's Road, Coventry. Telephone: Coventry 27296.

Appointments

Mr Leslie W. Farrow, C.B.E., F.C.A., deputy governor of the Corporation of Royal Exchange Assurance since 1955, has been appointed sub-governor.

Mr C. G. Moira, F.C.A., has been appointed a director of High Precision Equipment Ltd.

Mr E. S. Stowe, F.C.A., formerly secretary of Triplex Holdings Ltd, has been appointed treasurer and chief accountant of the company.

IRISH MINISTERIAL POST FOR CHARTERED ACCOUNTANT

Mr C. J. Haughey, B.COMM., B.L., F.C.A., senior partner in the firm of Haughey, Boland & Co, Chartered Accountants, of Dublin, has been appointed the new Minister of Justice for the Republic of Ireland following the recent elections held earlier this month.

Educated at Scoil Mhuire, Marino, and St Joseph's, Fairview; a commerce graduate of University College, Dublin, and called to the Bar in 1948, Mr Haughey was admitted to membership of The Institute of Chartered Accountants in Ireland in 1950.

Mr Haughey, who first entered politics in 1956, was elected to the Dail in the general election the following year for the Dublin North-east constituency. He became Parliamentary Secretary to the Minister for Justice in May 1960.

SIXTY YEARS IN THE PROFESSION

To mark his achievement of sixty years' membership of The Institute of Chartered Accountants in England and Wales, Mr E. M. Ormrod, F.C.A., senior partner in the firm of H. Noel French, Ormrod & Co, Chartered Accountants, of Liverpool, was recently the guest at a luncheon given in his honour by the Liverpool Society of Chartered Accountants.

A short address of welcome was given by the President of the Society, Mr Philip Lloyd, F.C.A. In his reply, Mr Ormrod referred to the many old friends who were the founders of some of the firms in which the present committee members are now partners. Mr H. Noel French, F.C.A., Mr Ormrod's former principal, who was also present, referred to the fact that as he was now a nonagenarian, he was taking life a little more easily, adding humorously that he had conformed with modern times by only working a five-day week.

SCHEDULE A

Revenue Leaflet on Maintenance Claims

The Inland Revenue leaflet on maintenance claims by owner-occupiers of property, promised by the Chancellor of the Exchequer during the Committee Stage of this year's Finance Bill, was published last Tuesday.

Copies of the leaflet may be obtained from tax offices. It explains how owner-occupied residential property is assessed under Schedule A; what expenditure on the maintenance and repair of property ranks for relief, and what does not. The leaflet is, of course, intended for the information and guidance of owner-occupiers in general.

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REVALUATION OF ASSETS

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BELFAST SOCIETY OF CHARTERED ACCOUNTANTS

The fourth residential conference of the Belfast Society of Chartered Accountants was held at the Strand Hotel, Portstewart, Co. Londonderry, from Friday, 6th to Sunday, October 8th, and was attended by approximately seventy members including twelve members of the Industrial and Administrative Group.

There were four business sessions and the lively discussion which followed each paper was evidence of their interest and value. Papers presented were: 'The changes introduced by the Companies Act (N.I.), 1960, with particular reference to the Sixth Schedule', by Mr R. E. McClure, F.C.A.; 'Loss of profits insurance', by Mr S. H. Laughlin, F.C.A.; and 'Tax relief for losses', by Mr J. E. Crawford, F.C.A.

A golf competition was held on Saturday afternoon for the Allen Cup and was won by Mr R. McM. Mills of Ballymena, the runner-up being Mr G. T. Henderson of Bangor.

SOUTHEND-ON-SEA CHARTERED ACCOUNTANTS' GROUP

The annual general meeting of the Southend-on-Sea Chartered Accountants' Group was held at the West Cliff Hotel, Westcliff-on-Sea, on October 5th. It was reported that the past year had proved successful, and the membership now numbered seventy-eight. Satisfactory reports were received from the treasurer and the taxation and research subcommittee. The following officers and committee members were elected for the ensuing year:

Chairman: Mr A. A. Stewart, A.C.A.

Vice-Chairman: Mr S. Porter, F.C.A.

Hon. Secretary: Mr M. A. Wren, A.C.A., 10 Warrior Square, Southend-on-Sea.

Hon. Treasurer: Mr H. E. Hard, F.C.A.

Hon. Press Officer: Mr E. W. Matthews, F.C.A.

Committee: Messrs L. M. Keen, F.C.A., and E. H. R. Martin, F.C.A.

The annual dinner of the Group has been arranged for Thursday, December 7th, at the Middleton Hotel.

SOUTH WALES AND MONMOUTHSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

A complimentary dinner was given at the Angel Hotel Cardiff on October 6th, to Alderman E. Ewart Pearce, M.B.E., J.P., F.C.A., the Lord Mayor of Cardiff. Alderman Pearce is the first chartered accountant to become Lord Mayor of Cardiff. He is a past president of the former Incorporated Accountants' South Wales and Monmouthshire District Society and a member of the committee of the South Wales and Monmouthshire Society of Chartered Accountants.

The dinner was given by the present committee and past presidents of the South Wales and Monmouthshire Society and the past presidents of the former Incorporated Accountants' District Society, and was

under the chairmanship of Mr Edgar T. Shepherd, F.C.A., President of the Society. The Council of the Institute was represented by Mr Colin Montgomery Williams, F.C.A., and Mr Donald V. House, F.C.A. Also present were two past presidents of the former Society of Incorporated Accountants, Sir Frederick J. Alban, C.B.E., LL.D., J.P., F.C.A., and Mr R. Wilson Bartlett, D.L., J.P., F.C.A.

Mr Colin Montgomery Williams proposed a toast to Alderman Pearce and referred to his many years of public service to the City of Cardiff and in the accountancy profession in South Wales. The toast of 'The Ladies' was proposed by the chairman and responded to by The Lady Mayoress, Mrs Ewart Pearce. During the evening Alderman Pearce was presented with an inscribed silver salver.



Photo: Western Mail & Echo Ltd

The Lord Mayor of Cardiff receiving the silver salver from the President of the South Wales and Monmouthshire Society of Chartered Accountants.

SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

The twelfth students' residential course arranged by the South Eastern Society of Chartered Accountants was held at the Royal Pavilion, Brighton, from September 25th to 29th (Intermediate course) and October 2nd to 6th (Final course). There was an attendance of 180 students, mainly from students' societies within the Society's area, which serves Kent, Sussex, Hampshire and parts of Wiltshire and Dorset. Several students journeyed from the Channel Isles to attend the course, and a number of London students were also welcomed.

The course was introduced by Mr A. S. Watson,

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F.C.A., President of the Society, who presided at the dinners. Mr R. P. Matthews, J.P., B.COM., F.C.A., and Mr E. F. G. Whinney, M.A., F.C.A., members of the Council of the Institute, were the principal speakers at the Final and Intermediate course dinners respectively. The Society also welcomed students' society officers, and principals of articled clerks, to the dinners and other functions.

It is felt by the organizers that considerably more students will wish to attend future courses, and it is hoped that their attendance will again be facilitated as much as possible by the very willing co-operation given by principals this year.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m. at the Institute, Moorgate Place, EC2: Lecture on 'What does a balance sheet say?' by Professor W. T. Baxter, B.COM., C.A. (Professor of Accounting, University of London).

Tuesday, 6 p.m. at the Institute: Speakers' Course Brains Trust.

Wednesday, 5.30 p.m. at the Institute: Lecture and demonstration of Kenrick and Jefferson accounting methods (limited number).

Thursday, 5.15 p.m. at the Institute: Introductory course lecture on 'The fundamentals of auditing', by Mr F. R. Porter, F.C.A., A.C.W.A.

Friday, 5.15 p.m. at the Institute: Introductory course lectures on 'The basic principles of double-entry book-keeping and accounting systems', by Mr R. J. Carter, B.COM., F.C.A., secretary of the Students' Society, and on 'The law and its branches', by Mr P. W. Medd, Barrister-at-law.

Reading Branch dance.
59 Club dance.

ANNOTATED TAX CASES

Part 4 of Volume XL of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is published today and contains reports with notes on the judgments of the following cases: *Griffiths v. J. P. Harrison (Watford) Ltd (C.A.)*; *Commissioners of Inland Revenue v. R. Woolf & Co (Rubber) Ltd (C.A.)*; *Aviation and Shipping Co Ltd v. Murray (C.A.)*; *Glasgow Corporation v. Commissioners of Inland Revenue (C.S.)*; *Forest Side Properties (Chingford) Ltd v. Pearce (C.A.)*; *Coutts & Co (Stanhope's Trustees) v. Commissioners of Inland Revenue (Ch.D.)*; *Littlewoods Mail Order Stores Ltd v. Commissioners of Inland Revenue (C.A.)*.

The annual subscription to the *Annotated Tax Cases* is 50s post free; the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

There will be a special meeting of the Board of Governors at 2.15 p.m. on Wednesday, November 15th, 1961, to appoint a joint honorary auditor of the Association. The meeting will be held at 55 Moorgate, London EC2.

CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The autumn meeting of the Chartered Accountants' Golfing Society was held at Walton Heath Golf Club on September 29th. The weather was excellent and the course in its usual first-class condition. The meeting attracted an entry of sixty-four members.

Leading scores:

Stableford Singles

J. H. Bradfield (9)	..	..	..	..	34 points
(Won first prize)					
A. W. Coleman (13)	..	..	..	..	34 "
(Won second prize)					
P. H. Blandy (14)	..	..	..	..	34 "
M. J. B. Watson (10)	..	..	..	..	34 "
A. J. Barsham (15)	..	..	..	..	33 "
M. T. W. Easby (2)	..	..	..	..	33 "
(Won scratch)					
E. H. Head (10)	..	..	..	..	33 "
B. H. Buckley (4)	..	..	..	..	32 "
S. B. Pendock (5)	..	..	..	..	32 "
H. L. Davies (16)	..	..	..	..	31 "
H. C. Staines (6)	..	..	..	..	30 "

Stableford Foursomes

P. H. Blandy (14) and J. B. Charles (8)	..	35 points
(Won first prize)		
M. T. W. Easby (2) and S. B. Pendock (5)	..	33 "
(Won second prize)		
J. C. Powell (18) and J. V. Wilson (8)	..	33 "
J. H. Bradfield (4) and P. Knight (6)	..	32 "
B. H. Buckley (4) and S. B. Bouverie (13)	..	31 "
E. H. Head (10) and M. J. B. Watson (10)	..	31 "
D. H. Brown (10) and N. W. Collett (13)	..	31 "
R. Beck (12) and F. C. Edwardson (16)	..	30 "
A. B. Green (7) and H. G. J. Foulger (13)	..	30 "

The A. T. Turquand-Young Challenge Cup for the best aggregate at the summer and autumn meetings was won by A. W. Coleman with 35½ points at Sandy Lodge and 34 points at Walton Heath, a total of 69½ points.

The A. O. Miles Challenge Cup was won by Messrs Hays, Akers and Hays who beat Messrs Fletcher, Head, Smith & Co in the final by 2 and 1.

The annual general meeting of the Society will be held at Royal Porthcawl Golf Club on May 12th and 13th, 1962.

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Negligence and the Third Party

THERE was an echo in the Court of Appeal last week of the Court's own decision in 1951 in *Candler v. Crane Christmas & Co.*¹ That case reaffirmed the broad principle that when a professional person is negligent, as in the giving of information, he is not liable in damages to a third party who acts on that information but who is not in any contractual or other special relationship with the professional person. This rule certainly causes hardship, and a dissenting judgment of LORD JUSTICE DENNING (now LORD DENNING) in the *Candler* case referred to those who were against giving damages to the injured third party as 'timorous souls'. This observation, however, did not prevent his two colleagues from rejecting the claim for damages.

In *Hedley Byrne & Co Ltd v. Heller and Partners Ltd*² the plaintiffs appealed against a decision of MR JUSTICE MCNAIR³ dismissing their action for damages against the defendants. His lordship had held that there was no duty of care on bankers in giving references in the absence of a contractual, fiduciary, or other special relationship. The plaintiffs were advertising agents, and the defendants merchant bankers. Having placed substantial orders for a client, Easipower Ltd, on terms on which they were responsible for the cost of the advertisements, the plaintiffs caused inquiries to be made (through their own bankers, National Provincial Bank Ltd) of the defendants, who were the bankers to Easipower Ltd. The defendants gave satisfactory references but they were not justified. As a result the plaintiffs undertook very substantial orders for Easipower Ltd which that company could not pay.

MR JUSTICE MCNAIR held³ that if the defendants were under a duty of care in respect of the references they *had* been negligent; but he held that there was no duty and he dismissed the plaintiffs' action. The plaintiffs originally alleged that the defendants had not given the references honestly but they abandoned this allegation at the trial.

In August 1958, when the first of the two references was given, Easipower had a substantial overdraft with the defendants and was in serious difficulties with its trade creditors. It had borrowed money in June 1958 from City Merchants Ltd, a company having substantially the same shareholders as the defendants, and the loan was charged on Easipower's stocks. It was assumed for the

¹ ([1951] 2 K.B. 164).

² *The Times*, October 19th, 1961.

³ *The Times*, December 20th, 1960.

purposes of argument that Easipower was dependent for its survival on finance provided by the defendants, when the first reference was given. The plaintiffs placed forward advertising orders to a total amount of £22,000.

The plaintiffs' argument was that they could recover damages in negligence for the reason that when references were given by one bank to another for the benefit of a customer of the inquiring bank, there was a sufficient proximity between the answering bank and the customer to impose a duty of care. LORD JUSTICE PEARSON pointed out that that argument was the same as the one which was rejected by the Court of Appeal in *Candler v. Crane Christmas & Co.*, and *Le Lievre v. Gould*.¹ The argument was therefore not maintainable in the Court of Appeal.

His lordship said that in *Halsbury's Laws of England*² there was a statement that an action could be brought against a banker if negligent in answering financial inquiries. The authority cited was *Batts Combe Quarry Ltd v. Barclays Bank Ltd*.³ In that case MR JUSTICE AVORY said that 'the only duty on a banker, if any, was not to be negligent'. His decision was that if there was a duty there had been no breach of it in that case. However, as the words 'if any' showed, he never decided that there was a duty of care on a banker when answering inquiries.

There was an alternative submission by the plaintiffs. This was that in the present case there was a special relationship that created a duty to take care when giving information. This special relationship was created because the defendants financed Easipower and enabled it to survive. To this, LORD JUSTICE PEARSON said that although there were contractual, fiduciary or other special relationships which gave rise to the duty to take care, the facts here did not constitute such a special relationship. The precedents showed that the relationship must exist between the inquirer and the referee, not between the referee and the person inquired about.

The authorities made it necessary to dismiss the appeal. But apart from authority it was not reasonable to impose an obligation of care on a banker. It was conceded that he was not expected to make outside inquiries when giving references.

It would be unreasonable to expect a banker in his own time to study his records and files before giving an answer. If he were permitted to give an impromptu answer, on the basis of a quick glance at a file, the duty of care, if it existed, would add little to his liability. If the answer were seriously wrong, that might be some evidence of dishonesty.

LORD JUSTICE HARMAN, like LORD JUSTICE ORMEROD, agreed. He added that in equity it always said that innocent misrepresentation did not give rise to actionable damages. It was always a good defence to an action for specific performance and could avail to rescind an executory contract. But once a contract was executed there was no remedy for innocent misrepresentation, although there might be special duties arising from a contractual or fiduciary relationship. Equity and the common law thus held the same doctrine in this respect. Once the plaintiffs had abandoned their charge of fraud, they had no hope of success. The Court nevertheless gave the plaintiffs leave to appeal to the House of Lords.

The law of torts can hardly be said to be a particularly shining example of the excellence of English law generally. It is a somewhat haphazard growth embroidered with statutory modifications enacted *ad hoc* to deal with some more than usually unacceptable anomaly. The conception of the circumstances in which a duty to take care can arise is a particularly bewildering one to the layman. It is because of the anomalies in the realm of company prospectuses that stringent regulations are laid down in the Companies Act. Wherever information is put out by experts to other persons having special knowledge, the fact of the absence of the duty to take care ought always to be made clear. The Board of Trade sets a good example in this respect.

It is at any rate conceivable that the House of Lords will overrule the decisions in *Le Lievre v. Gould* and *Candler v. Crane Christmas & Co.* This would presumably have the result that accountants who prepare accounts for their clients, accounts which are reasonably likely to be shown to third parties, will be under a duty to those third parties to take care to see that the accounts are accurate, or at any rate that the certificate given on them is not misleading, even innocently.

¹ [1893] 1 Q.B. 491.

² 3rd Edition, Vol. 2, page 241.

³ [1931] 48 T.L.R. 4.

The Economics of Selling Price

by T. S. McALPINE, A.A.C.C.A., A.C.W.A.

Guide to Product Policy

SELLING price has been aptly described as the expression of the buyer's preference. To the producer the selling price in conjunction with the potential sales demand is a guide to the products which can be manufactured economically, if he examines it from this viewpoint.

Manufacturers are not wholly guided by the selling price and its implications in deciding product policy. The too readily accepted view is that some products will be profitable and some not so profitable and that it is a case of the swings and roundabouts. This is so commonplace that managements are not unduly concerned unless the total profit falls below normal expectations. The reasons given for the low-profit products, if these are identifiable, cannot usually be substantiated by any real facts. It may be stated, for example, that the selling price is too low, or that it promotes the sales of other products, or that it boosts total turnover and, therefore, total profit. Invariably the condition is ascribed to outside factors instead of, as is frequently the case, to a wrong product policy.

The most common fault in product policies is to include products which the company is not organized or equipped to make. This often arises through failure to appreciate that there is an optimum output level for a product which justifies the best application of production techniques and gives the lowest production cost. Not infrequently a subsidiary product of one company is the major product of another which is better equipped to manufacture it.

The policy of swings and roundabouts with a not unsatisfactory profit can have a most damaging influence on operating efficiency. It is often the outcome of a wrong product policy which unduly complicates the operation of the business and imposes an additional strain on management, sometimes with the effect that the wrong products command the greater attention.

The intensification of competition, with its changing pattern through business amalgamations, absorptions, revolutionary production techniques, and now the possibility of absorption into the European Common Market, will demand greater efficiency and a more positive approach to product policy. Companies will have to con-

centrate on the manufacture of the products they can best produce, as measured by the selling price in relation to cost, and with due regard to potential sales.

Relative Product Costs

It is important in considering the economics of selling price to appreciate that the cost of a product cannot always be so accurately defined as most people may believe. Where only one product is manufactured, then an accurate and representative cost can be obtained; but where a company manufactures several products using common production facilities, then it cannot establish the true economic cost of any product.

A combination of products will call for a different organization from that of a single product and this must influence the product cost. A saving can be made through the larger volume of output obtained from the manufacture of a number of products and this again is reflected in the product cost. For example, the total production may justify a three-shift operation which could not be justified by any single product; or automatic lathes may be in operation which could only be warranted by the total output.

There is the further aspect that the cost of operating common production facilities can only be charged to products on an average basis, which not only influences product costs but can on occasions distort them—particularly where the length of the production run varies considerably between products.

When it is recollected that the variety of products of one manufacturer is seldom matched entirely by that of another, there can be many permutations in relation to any one product, and it is little wonder, therefore, that the selling price, which has to equate all these varying conditions, sometimes bears no relation to the cost.

Implications of Selling Price

Selling price sets a standard for the manufacturer against which he can measure his ability to make the product. Profit is the yardstick, and to conform he must be organized and equipped to make the product and be capable of operating at a certain level of efficiency.

It is a simple operation to determine the profit

given the cost of the product, but it can often be a complex and confusing exercise to establish cause and effect. The simple fact is that the procedure for costing products with the mass of detail generally involved is not suited, except in the simplest conditions, to provide the generalized picture that management requires.

One has only to examine the cost of an assembly type of product to appreciate this fact. The product may consist of fifty parts, each part requiring four or five operations on various machines at different machine hour rates; and so the detail multiplies.

The objective should be to establish the general pattern of the operating costs and to examine the selling price against this background. The following example will illustrate the principle.

SALES AND OPERATING COSTS FOR THE PERIOD

	£	£
Sales		500,000
Less Material cost		175,000
Operating costs and profit ..		325,000
Less Selling and distribution ..	37,500	
Research and development ..	25,000	
General administration ..	50,000	
		112,500
Conversion cost and profit ..		212,500
Less Conversion cost (15s per standard hour)		137,500
Profit		£75,000

Total standard hours: 183,333

It will be noted that selling and distribution is $7\frac{1}{2}$ per cent of sales; research and development is 5 per cent; and general administration is 15 per cent.

The standard hours are based on the times allowed by time study for the production operations; this is a procedure fairly common to engineering where there is no natural unit of output. The conversion cost divided by the standard hours gives a rate of 15s per standard hour.

These rates are applied in the following example to analyse the selling price of a product.

PRODUCT COST

	£	£
Selling price		200
Less Material cost		80
Operating cost and profit		120
Less Selling and distribution ..	15	
Research and development ..	10	
General administration ..	20	
		45
Conversion cost and profit		75
Less Conversion cost		55
Profit		£20

Standard hours: 73

There is little doubt that if the above procedure is carried out for each product and the figures weighted in accordance with the normal sales mix then management will be in a position to draw reliable conclusions.

Cases have been known where cost summaries, prepared on the general lines indicated above, have disclosed major weaknesses which could not be detected from a detailed cost analysis. This is to be expected as major issues involve major considerations which depend for their solution on the comprehensive view.

Measuring Profitability

The most common method of measuring profitability is to relate the profit to the cost of the product and express it as a percentage. This method can give misleading results as the following example will show.

	A.	B.
	£	£
Selling price	120	100
Cost	90	80
Profit	£30	£20
Profit as per cent of cost ..	33 $\frac{1}{3}$	25
Comparable output (weekly) ..	500	1,000

The production plant is capable of producing 500 of A. per week or 1,000 of B. At first sight A. would appear to be more profitable but after taking the comparable output into account it is seen that B. can earn a profit of £20,000 per week against £15,000 for A.

Conditions are seldom so simple as this in practice, but it clearly indicates the principle that profit should be related to the proportion of the production capacity absorbed by the product. Unfortunately, however, it is difficult to define production capacity in some industries and particularly in engineering. How, for example, can drilling machines be equated with automatic lathes in assessing production capacity?

The best available compromise is to relate profit to the conversion cost, and this method can be demonstrated by applying it to the example given above.

	A.	B.
	£	£
Material cost	20	40
Conversion cost	50	20
Selling, administration, etc. ..	20	10
Total cost	90	80
Selling price	120	100
Profit	£30	£20
Profit on conversion cost ..	60%	80%

The profitability of a product is not an academic consideration, as it affects many companies in some degree and, on occasions, seriously. There was the case of one company which made a variety of products all of a somewhat similar production pattern excepting one which involved mainly assembly operations with very little machining. The product was not held in high regard as the profit was only 6 per cent on total cost as compared with 20 per cent for other products. The total sales and profit declined

for no apparent reason as the factory was fully employed. It was finally established that the overall decline was due to this particular product which had virtually become obsolete. It had not been appreciated that the product showed a profit of nearly 200 per cent on conversion cost and was by far the most profitable item. The product introduced to retrieve the sales and profit position inevitably entailed a high proportion of machining and involved a major extension to the machine shop.

Accounting for the Future

THE VALUE OF COMMONWEALTH TRADE

by The Hon. GEORGE A. DREW, P.C., Q.C., High Commissioner for Canada

Address given at the annual President's Meeting of The Chartered Accountant Students' Society of London in Guildhall on October 18th.

IT is a great privilege for all of us to be welcomed here in Guildhall by the Lord Mayor of London and to be reminded of the splendid traditions of local government associated everywhere in people's minds with the history of this famous building. From this ancient hall has gone out to the whole world a concept of civic responsibility which in a large measure has given form and substance to the kind of democracy we are all seeking to preserve.

Here we are reminded that trade and finance go hand in hand with skill and reliability. It does seem to be particularly appropriate that those whose business life will be devoted to the constant examination of facts and figures, for the purpose of ascertaining the whole truth and nothing but the truth, should meet here today at the invitation of your president.

I need not tell you that anyone who is asked to speak to a meeting such as this usually looks for some story suitable for the occasion to break the ice before diving in. I confess that in spite of all my professional and business contacts with accountants, I had never realized before that no book of quotations that I could find contains any comments about accountants - amusing, critical or by way of praise. There are many quotations referring to lawyers or doctors, most of them highly derogatory. Nor do brokers and bankers fare much better. But not one, good or bad, could I find about accountants. There is an old saying, 'Happiest is the nation which has no history'. Perhaps it can similarly be said, 'Happiest is the profession which is the butt of no jokes'. I admit that the nearest I came to finding anything of that kind was in the programme of your own society. There I read that on November 13th the subject for discussion is 'How misleading can your

accounts be?' I trust this indicates no contemplated departure from the stern ethical standards you have always observed.

Need for Unvarnished Truth

Now may I say in all earnestness that never have we needed so greatly, in our public as well as our private affairs, the most rigid insistence upon the plain unvarnished truth.

No longer is the task of the accountant merely to find out what has been done. At the similar meeting here in Guildhall a year ago, Lord Chandos recalled that when he was confronted with an indigestible mass of statistics he had on occasion said that statistics are, after all, the art of locking the stable door after the horse has been stolen. He then remarked, 'I would not say that about accountants'. May I express my own warm support of that observation. More and more we rely upon the accountant to examine all relevant facts so that we may plan the course of our business enterprises for the future.

Perhaps for all of us the most important enterprise in the international field is the Commonwealth. Its future success demands constant and precise examination of the facts just as much as any ordinary business. We Canadians have a special reason for being greatly interested in the future success of the Commonwealth.

Just as Britain gave to the world a model of efficient municipal government, and also a parliamentary system which is now so widely respected and followed, it was in Canada, one hundred years ago, that Sir John Macdonald first defined the principles of a partnership of sovereign states under one Crown, which took form when Canada became a nation in 1867. Since then one colonial territory after

another has followed the same course and, with the wise guidance and assistance of the British Government, has assumed full parliamentary responsibility for its own affairs.

I mention this merely to recall that we have strong sentimental as well as material reasons for hoping that the Commonwealth will continue to grow and prosper in the years ahead.

Declining Commonwealth Trade a Fiction

That is why I do wish to mention some statements I have read recently to which the accountant's standard of accuracy should be applied. Only last week, for instance, I read reports again in London newspapers of reference to declining Commonwealth trade. If that were true, then it would be our duty to accept the truth and do what we could to remedy the situation. But it is not true that Commonwealth trade is declining. The very opposite is the truth. At a time when so many far-reaching decisions must be made in every country of the Commonwealth, surely it is vitally important that the facts be examined and that the excellent example offered us by accountants should be followed in reaching our conclusions, whatever they may be.

Perhaps this is a suitable occasion to employ the very old legal maxim, 'The facts speak for themselves'. In 1950 Britain exported to the Commonwealth goods to the value of

£1,054,302,581. Last year, in 1960, British exports to the Commonwealth had increased to £1,499,078,035, an increase – and I emphasize an increase – of nearly £445 million. Nor has that satisfactory trend been reversed. For the first eight months of this year British exports to the Commonwealth had a total value of £1,016 million, as compared with £996 million for the same period in 1960. I hesitate to think what the attitude of any examiner would be to a student accountant who used those figures as evidence of a decline in Commonwealth trade!

There is another fact which is not without significance at this particular time. Britain's exports to the Commonwealth last year had a value of nearly £500 million more than the total value of all British exports to every country in Europe this side of the Iron Curtain.

In view of some other statements which have been made, some of you may well be asking yourselves 'But what about trade with Canada? Surely that is a different story'. Again may I give you the exact figures taken from British official records? In 1950

British exports to Canada were valued at £125,855,811. In 1960 they were valued at £214,600,936, an increase of more than 70 per cent. Our exports to Britain have increased by an even greater percentage. In 1950 they were valued at £179,342,558, while last year they had risen to £375,574,081. This is an increase of nearly 110 per cent. I would point out, however, that there is a compensating factor which should never be forgotten. Nearly all that trade, both ways, was carried in British ships, and nearly all of the very substantial payments for insurance were paid to British companies. These 'invisibles' are still

a very important consideration in balancing trade figures, particularly when the goods are carried over long sea routes.

Another very interesting statement I read a few days ago sought to offer an explanation for what has been so strangely described as a decline in Commonwealth trade. It was said that this is because of the desire of many Commonwealth countries to alter their own pattern of trade, and to manufacture what they have been buying from Britain. Even if there were a decline, and that is certainly pure fiction, it could not be related to any change in the pattern of trade in Canada, or so far as I know, in any other Commonwealth country. There are still those who think of Canada as primarily an agricultural country. That has not been true in our case for many years. Again let me give you the facts. In 1950

agricultural production represented 11.6 per cent of the value of our gross domestic product. In 1960 it represented 5.5 per cent. There has been no sudden change of the pattern of our life in Canada, or in any other highly-developed country in the Commonwealth. Since long before the last war, the manufacturing industry in Canada has been, by a very wide margin, the largest single source of our national income. Nevertheless, as I have already pointed out, during the ten years from 1950 to 1960 British exports to Canada increased in value by 70 per cent. The truth is that it is the industrial nations, with their relatively high income, which have the greatest purchasing power and provide the best markets.

It is emphasized, and very properly emphasized, that we should look to the future. That is the thought I had in mind when I chose the title for my remarks today. Just as accountants are now so frequently asked to assess the probable trend of business on the basis of present facts and reasonable expectations for the future, I think it is extremely important that



The Hon. George A. Drew.

Each of us do our best to prepare an accurate balance sheet of the present state of Commonwealth trade, compare it with our trade in other areas, and then seek to make an estimate of the future trend of events based upon a sensible interpretation of that balance sheet.

With that in mind, I think it is well to recall that the possibilities for expansion of trade within the Commonwealth are truly enormous. Canada and Australia particularly, with their large land areas and fantastically generous supply of raw materials of nearly every kind, are certain to provide rapidly-expanding markets in the years ahead. That is true of other countries in the Commonwealth as well. In each one of those countries, whether it be India with its enormous population or the newest member of this family of nations, increased industrialization, improvement of economic conditions, and a higher standard of living will all combine to provide a much larger demand for exports from Britain and other countries.

Canada's Growth

Let us look at what has happened in Canada alone, merely as an example of what we may reasonably expect in the future. We have the largest concentration of raw materials anywhere in the free world. Our resources are exceeded only by those of Russia, and it also happens we are exceeded only by Russia in size. What that has already meant to Canada is shown by the dramatic expansion of population and production in our country since the war. We have had the most rapid percentage growth of any country in the world. Our population has increased by 50 per cent from twelve million to more than eighteen million today. In the same period our production has increased in value three times, from £4,300 million to £13,000 million in 1960. There is nothing to stop this accelerating expansion. The resources are there, the land to feed a very much larger population is also there, and we have every source of industrial energy known to man.

Perhaps, in view of the sometimes gloomy estimates of Canadian affairs which you may have heard, it would only be natural to ask how large a market Canada does provide. The simplest way to answer that question is by recalling that last year our total imports from all countries were valued at £1,860 million. Those figures represented the market for exporters to Canada last year. We have made it clear that it would be to our advantage, as well as your own, if a larger share of that market could be supplied from Britain. We want our trade to increase both ways. However, one point I do wish to emphasize. There is no arbitrary method by which British exports to Canada can be increased any more than there is some easy way by which our sales, here or elsewhere, can be expanded. There has never been any suggestion that this could be done except by hard selling, good quality, reasonable prices, prompt delivery, and efficient service. In both our countries

those are the conditions we must meet if the full possibilities of trade both ways are to be realized.

There is one particularly important fact which I hope will be given full consideration when we try to prepare an accurate account for the future. Without in any way suggesting that Canada's relationship with Britain should be regarded as something different to the relationship between all other nations within the Commonwealth, I do think there are practical reasons why we should examine very carefully the complementary nature of our two economies. The nearest and surest sources of many of the raw materials which you require for your expanding industry, as well as food products which have been so useful in peace and war, are available across a comparatively short sea route. For us there are great advantages to be gained from your accumulated skill in business, in production methods, and in research. Furthermore, there are many kinds of industrial products which we are now buying from this country and could buy in increasing quantities. There is also the advantage that our business men can now travel back and forth between our two countries in a few hours. Even on the basis of the coldest facts, it is a most heart-warming picture of great opportunity.

I do hope that many of you will visit Canada and see for yourselves what the prospects are. In any event, I am grateful for the opportunity to be with you today, and I do wish you health, happiness and success in the very important work you are going to do. If I might close with a word of advice, based on what I have seen happen in my own lifetime, it would simply be this, 'Don't sell the Commonwealth short'.

Weekly Notes

Solicitors' Accounts

WE reproduce below a notice which appears in the October issue of *The Law Society's Gazette*.

DELIVERY OF ACCOUNTANT'S CERTIFICATES

A Reminder

'Attention is again drawn to a notice published in the June 1959 issue of the *Gazette* at page 373, concerning the action taken by the Council in cases where accountant's certificates are not delivered at the proper time.

'This stated that the Council now send out only one reminder to a solicitor who is late with his certificate. This reminder gives the date on which the certificate was due and states that unless it is received within seven days or a sufficient and satisfactory written explanation given to the Society for its non-delivery disciplinary proceedings will be instituted, *without further notice*, against the solicitor concerned.

'The delivery of an accountant's certificate is *not* connected with the lodging of a declaration to lead to the issue of a practising certificate. An account-

ant's certificate can be delivered at any time during the six months immediately following the accounting period to which it relates; the Society's task would be made very much easier if solicitors would deliver their certificates towards the start of the six months' period, instead of following the more usual practice of delivering them only a few days before the last permissible day.'

The responsibility for delivering accountants' certificates within the prescribed time limit (and the risk of disciplinary proceedings in default) is, of course, solely that of the solicitor. However, as the late submission of the certificates has in some instances been alleged to be due to delay on the part of the accountant, it is to be hoped that accountants will ensure that their certificates are given in good time.

Rating Prospects 1963

WHEN the new valuation lists for rating are introduced in April 1963, there are likely to be some unpleasant surprises for ratepayers. The Rating and Valuation Act, passed this summer, provides for the valuation of domestic dwellings on current rentals instead of 1939 rentals as at present; the 50 per cent industrial de-rating is to be abolished and shops and commercial properties will lose the 20 per cent deduction from their full rateable value which many have enjoyed since 1957. These provisions will bring about a redistribution of rateable value between the main classes of hereditaments in consequence of which the Minister of Housing apparently expects that domestic rateable values could increase overall by as much as a third or more. In some areas the impact of the redistribution will be even more severe. The Minister has taken powers under Section 2 of the 1961 Act which will enable him to abate domestic valuations if he considers the increases to be excessive.

In a paper read to the annual conference of the Rating and Valuation Association held this week, Mr P. R. Bean, a chartered surveyor and rating valuer, has suggested that these powers may prove unnecessary except in isolated cases. Given the growing volume of evidence of rising rentals for both industrial and commercial property, Mr Bean believes that these valuations will rise much more than has been generally expected and this will relieve the domestic ratepayer's burden. In the case of shops and commercial hereditaments, Mr Bean estimates an increase of 108 per cent in rateable value; for industrial property the forecast increase is 200 per cent. Thus, even if current rentals of domestic dwellings are deemed to be three times the 1939 figure, the new valuations of domestic property may be lower than the debates in the House of Commons last November suggested might be the case. This opinion is reinforced by the strong possibility that statutory deductions from the gross annual value of domestic property will be increased.

Rather different views were expressed by an economist, Mr A. R. Ilesic, in his paper. He believes that the doubling of industrial rateable values, which will follow the loss of derating, will impose a heavy burden

on industry and it can hardly be expected to bear more than 100 per cent increase. Likewise, the loss of the 1957 relief signifies an increase of 25 per cent in commercial valuations which may be as much as this class of property can take. If these views are borne out, then the householder could expect an increase in his rate burden of about one-third in 1963. Mr Ilesic stresses that the redistribution of rateable value is not the only problem; for although rate poundages will be considerably reduced with higher valuations, rising local authority expenditure would increase the rates for all classes of hereditament.

Health at a Price

INSISTENCE within the National Health Service on a single standard of service for all eliminates the internal forces making for improvement that would be generated by emulation between diverse standards. On present evidence the N.H.S. has made no greater contribution to health than the different and diverse systems overseas; nor would it seem to have contributed less. Allegations that the standards of medical care have deteriorated since 1948 are no easier to substantiate than the claim that the N.H.S. is the finest in the world. These are some of the conclusions reached by an economics don in a study of the health service published by the Institute of Economic Affairs.¹

Dr Lees is concerned to examine the case against the State provision of medical care, as exemplified by the N.H.S., and to argue the case for a system based upon private insurance whereby the individual can decide the amount and quality of medical attention he is prepared to pay for. In the author's opinion a monolithic State which enjoys a monopoly control of the supply and services of doctors, of the prices and types of drugs, as well as hospital building, cannot possibly meet the diverse needs of individual members of the community. At present all that the public get is a 'utility' service standardized to all needs. Despite the much publicized assertions that excessive profits are being made from drug production, Dr Lees points out that prices in Britain for these goods have responded to competition and are lower than in other countries. He favours the introduction of a pricing system in the drug market, in place of the current restrictions imposed by the N.H.S., which he believes will result in a second-class supply with all the drawbacks of wartime utility goods.

The author is of the opinion that the average family should make its own provision for health through the medium of insurance. Only in the cases of those whose resources do not suffice to make such provision should State aid be received. Likewise, the State should restrict its provision in medical terms to the senile and those suffering from chronic sickness and ailments. Fears that have been expressed over

¹ *Health Through Choice*, by D. S. Lees. Hobart Paper 14. Issued by the Institute of Economic Affairs. 7s 6d net.

the extravagance inherent in the N.H.S. are quite unjustified, declares Dr Lees. In fact, as a proportion of consumer expenditure the rate of spending on medical care is well below that in the United States. Dr Lees stresses that as living standards improve, the public will normally wish to spend more on health, and the right proportion of the nation's resources will be allocated to this need much more accurately through the free working of the price mechanism than by State direction.

Dr Lees has made out a case for a re-examination of the principles underlying the State provision of medical care and many of the criticisms he makes are deserving of an early reply from interested parties.

Plea for Exports

THE latest issue of the Treasury's *Bulletin for Industry* is concerned about the slow progress being made with the export drive. Commenting on the balance of payments position it says that the figures for the first half of this year were not satisfactory. It thinks, however, that it is too soon to assess the impact of the crisis measures taken in July on the external position.

It comments on the fact that the Chancellor's measures have nevertheless begun to make some impact on the economy. It points to the fact that bank advances have dropped, car registrations have declined and hire-purchase contracts on second-hand cars have slumped. Business optimism has decreased and more firms report working below capacity. On the other hand it sees no significant change in the buoyancy of consumer demand.

The Treasury thinks that investment in manufacturing industry will reach a peak in the second half of this year. It considers, however, that there would have to be a big immediate change of plans for private investment as a whole to show much change next year. It thinks that the export potential is encouraging. The American economy is recovering and the expansion in Europe continues. Countries producing commodities are expected to benefit from both these trends and this should create a better market for British exports. Altogether, the opportunity for improvement seems likely to develop. It remains for industry to seize it.

F.B.I. on Education

THE Federation of British Industries' Education Committee, in evidence submitted last week to the Committee on Higher Education under the chairmanship of Professor Lord Robbins, set up by the Government in December last year, believes that there is a growing unsatisfied demand for young men and women capable of forming judgments on complex matters, and that a larger percentage of school-leavers could benefit from some form of higher education.

The Federation's committee feels that the question of the State undertaking greater responsibility for investment in education and training should be examined and states that 'the higher educational system of this country has not kept pace with the considerable changes which have occurred, over the past twenty years, in the demands made by manufacturing industry on its recruits'.

A number of suggestions are made on higher education. The committee takes the view that new institutions are needed to improve the balance of higher education. For example, they say that there are at present serious shortcomings in the teaching of foreign languages and a new approach to the study of these subjects – a matter of special importance to manufacturing industry – is needed. Existing colleges of advanced technology and the technological faculties of the universities should be regarded as being of equal status and new university degree courses in certain fields of study and a new form of general degree at honours level should be introduced.

Dealing with the training and teaching of staff the committee believed that manufacturing industry should be encouraged to help teaching needs by short-term or relatively long-term secondments of staff for teaching purposes. It is also suggested that exchanges between the staff of industrial research centres and academic institutions might be advantageous. The introduction of joint appointments between industry and the academic world frequently encountered in Holland, Germany and the United States, should be considered.

Capital Instalments or Income?

THE appeal and cross appeal in *Vestey v. C.I.R.*, to which we referred last week, were both dismissed by Mr Justice Cross on Monday. Mr Vestey had sold to a company a block of shares worth some £2 million. The consideration for the sale was £5½ million payable in 125 annual instalments of £44,000. The Special Commissioners held that the annual payments should be dissected between principal and interest, the latter being taxable. They rejected the taxpayer's argument that the instalments were all capital and they rejected the Crown's contention that they were all income.

Mr Justice Cross said this was a case where common sense demanded an apportionment; it was not a case where the only way to sell was to accept payment by instalments over a short period.

Insurance Premiums with the Rent

MR JUSTICE PENNYCUICK has dismissed a man action started by the Prudential Staff Union against the Crayford Urban District Council, attempting to prevent the Council from effecting insurance of its tenants' personal and household goods and collecting the premiums with the rents. (*The Times*, October 19th, 1961).

The Council had built many houses and flats

and let them at weekly rents under the Housing Act, 1957. In the autumn of 1958 a storm in the Chislehurst area had caused flooding in many of the houses and it was found that thirty out of every forty tenants were not insured against the damage they suffered. Moreover, a disaster like this was likely to cause the tenant to fall in arrears with his rent; the rent being the first thing to go. In November 1958 the Council resolved to make arrangements with the Municipal Mutual Insurance Ltd, for the issue of a 'Householder's Policy: Collective Insurance of Tenants' Effects', which covered most household and personal

effects, including cash and fixtures and fittings. For each individual tenant who joined the scheme the premium worked out at 5d a week, and 893 of 3,100 tenants joined it. The Council's rent collector collected the premium with the rent, and the Council received a 15 per cent commission.

The Prudential Staff Union argued (through the Attorney-General) that the Council was acting *ultra vires*. His lordship said that the Act vested *inter alia* the 'general management, regulation and control' of the housing in the Council and this was enough to authorize the scheme.

This is My Life . . .

by An Industrious Accountant

CHAPTER 95

WITH the absence of directors on holiday, business trips, and so on in recent months, it has often proved difficult to arrange for cheques to be signed promptly. They require the signatures of two directors, as well as my initials, and much time has been wasted searching for people on busy afternoons. Accordingly, the last board meeting authorized a more modern approach: the secretary is now included in the list of approved signatories.

It must be admitted that our chairman, a staunch conservative in commercial procedure, took the innovation hard. He believed firmly in rigid restrictions on the right to incur expenditure, and could scarcely believe his ears when our auditor recommended that in addition to a director, any one of the trusted senior officials should be empowered to sign cheques up to £2,000 value, thus leaving the directors free to fulfil their primary function of directing. We worked out a cast-iron control system, of course, but the chief was clearly shaken by the step.

That the system was something less than cast-iron became manifest one morning when our plump departmental accountant entered with a harassed expression. Yesterday's bundle of cheques, he said, had been dispatched inadequately authorized. They bore only one signature, that of a director. They got sent out prematurely, he explained (a passive-tense phrase he uses diplomatically when unwilling to apportion responsibility for error); some of them were for large amounts. So we went down to the bank together to discuss the best steps to take.

Our bank manager we regard as the brightest jewel in the company's crown. He has a lean, high-boned face, lit up by shrewd, merry eyes under

greying hair; and he has the helpful mien of a benevolent archbishop. The same eyes, he it said, are equally merry across a poker-table as he double a costly ace-pot and draws one card, but they never hint at what he holds.

'Well, well, so history repeats itself,' he said cheerfully. 'Initials again, eh?' It was a reference to my early days as a secretary *pro tem* to a big company, whose annual dividend was falling due. The standard dividend warrant bore two directors' holograph signatures; the secretary had to initial each warrant over a dotted line, and as there were over eighteen hundred shareholders, the task used to take my elderly predecessor all day.

I thought I'd be real smart. I had a rubber stamp made of my three initials in an oval 'case' and smuggled it into the bank. I impressed the whole bundle in an hour or so. The roof fell in next morning. The company's pernickety old bank manager telephoned in outraged indignation to say that the warrants were currently being lodged in shoals, all improperly authorized . . . a rubber stamp was illegal and invalid . . . they should be initialed individually by hand. He wanted an explanatory letter from my chairman. He wanted a confirmatory letter from the board. He wanted an indemnity from our insurance company. He practically wanted my head on the block; it would be a black mark for me when the directors heard of my blunder.

I was sitting brooding over my wrecked career when the telephone brought the reassuring voice of that junior bank official who is now, years later, our own local manager. There was no need to worry, he said; he'd been instructed to deal with the matter. If I'd call round quietly every morning to initial all warrants received, very much *post facto*, the problem would be solved in a week or so. No one else need ever know. My wrecked and wretched reputation was salvaged.

It wasn't so much the solution he proffered as his comradely speed in coming to help, and the relief of knowing that my mistake wouldn't be publicized; though looking back on the incident today, I doubt if my chairman would have taken the matter seriously. But I've had bank managers on a pedestal ever since.

Finance and Commerce

Dividend Reserve

THE use of a dividend equalization reserve is so unusual these days that there is a point of interest in seeing one at work. The company concerned is Parkinson Cowan Ltd, makers of domestic appliances, meters, etc., whose accounts form the reprint this week. Trading profit is down from £728,438 for 1959 to £307,301 for fifteen months to March 31st, 1961, and the equalization has been drawn on for £31,000. Even so, the ordinary distribution, which for 1959 was 17½ per cent, is only 11¼ per cent for the fifteen months, equivalent to 9 per cent for a year. The reserve is thus brought down to £70,000.

The reserve was created in the 1958 accounts. Mr Hugh Barker, the chairman, pointed out that the business was in light engineering, a substantial pro-

portion of the turnover being in the domestic appliance field, and it had become the habit of Governments to use the industry for steering the whole economy.

This time, he reports that the appliances division started 1960 with a full order book and a high rate of earning. The first misfortune, he said, was that 'the wave of labour disturbances which the Midlands were then experiencing flowed into our factory and took the form of a series of departmental strikes which finally brought the factory to a virtual standstill'. By the time the plant was working again, on came the hire-purchase restrictions and the market for gas cookers practically collapsed. The oil-heater market had been 'effectively demolished as a result of the publicity which attended the fire hazards to which some appliances were prone if abused'.

THE PARKINSON COWAN GROUP

Consolidated Profit and Loss Account for the fifteen months ended 31st March, 1961

	1961 (15 months)		1959 (12 months)	
	£	£	£	£
Trading Profit before taking into account the items set out below		307,301		728,438
Add Income from Quoted Investments		6,874		4,773
		314,175		733,121
Deduct:				
Depreciation	230,819		179,481	
Debtenture and Loan Interest (Gross)	11,744		12,137	
Auditors' Remuneration	5,892		3,799	
Bank Interest	31,841		645	
		280,296		196,062
Consolidated Profit before Taxation		33,879		537,149
Deduct Taxation (Note 10)		5,704		269,374
Consolidated Profit after Taxation		28,175		267,775
Add Taxation adjustments relating to previous year		40,411		13,409
		68,586		281,184
Deduct:				
Pre-acquisition profit of subsidiary purchased in 1960	16,032		—	
Profit attributable to minority interests in a subsidiary	4,906		—	
		20,938		—
Group Surplus		47,648		281,184
Add Preference Dividends received from a subsidiary in excess of net profits for the period		3,739		—
Deduct Profits retained by subsidiaries		—		34,105
		51,387		247,079
Add Amount transferred from Dividend Equalisation Reserve		31,000		—
Balance brought forward from previous year		45,572		19,663
Final Balance available for appropriation		127,959		266,742
Deduct:				
Dividends, less Income Tax, paid or proposed	26,059		20,847	
Preference—15 months to 31st March 1961	22,949		22,949	
Interim Ordinary—5 per cent	20,687		57,374	
Final Ordinary—6½ per cent	—		20,000	
Transfer to Dividend Equalisation Reserve	—		100,000	
Transfer to General Reserve	—	77,695		221,170
		50,264		45,572
Balance per Balance Sheet of Parkinson Cowan Ltd.				
Undistributed Profits retained by Subsidiaries at 31st December 1959	264,256		230,151	
Add Net Surplus for year retained	—		34,105	
Deduct: Preference Dividends received from a subsidiary in excess of net profits for the period	3,739		—	
		260,517		264,256
Balance carried forward per Consolidated Balance Sheet		£310,781		£309,828

Rubber and Property

BUKIT SEMBAWANG RUBBER CO LTD, which celebrates its golden jubilee this year, is also drawing on the past to keep the dividend going, but in this case the method is a simple reduction in the profit and loss account carry forward. Mr Harold Evans, F.C.A., the chairman, drawing attention to the over-distribution, says: 'It is considered that this is justified by the substantial liquid position. It remains your directors' intention to distribute income fully, and to distribute capital profits as and when they are realized in cash, but it is impossible at this stage for me to forecast future distributions.'

The company, with 'Rubber' in its title, has a rather unusual background. Mr Evans notes in his statement that the group's activities divide themselves into two parts. The first and pre-eminent part is, of course, the production of rubber. The second part is acting as a holding company for the property-developing subsidiaries. The company is now in the lead among private developers, giving Singapore low-cost housing with piped water and running sewage disposal.

Trust Accounts

THE accounts of The Second Alliance Trust Co Ltd for the year to July 31st last includes a 'minor change' in form: estimated double taxation relief on current year income is shown as an addition to gross revenue and not, as previously, as a deduction from United Kingdom taxation. And to avoid distortions in comparative earnings from one year to another, only such adjustments will, in future, be included in the revenue account for previous year's taxes as may seem at normal level and likely to recur. Exceptional adjustments, as, for example, arising on a change in the standard rate of income tax, will appear in the appropriation account. The double taxation relief added to gross revenue is £125,629 against £131,234.

The investment portfolio appears in the books at £8,615,841 against £8,745,282 but the valuation is up from £17,349,447 to £20,187,825 with the result, Mr Alan L. Brown, the chairman, points out, that the break-up value of the Ordinary stock has risen from 27s 11d to 34s 4d. This, Mr Brown says, has been very much due to the excellent performance of the Trust's United States holdings which have risen from 34.4 to 38 per cent of the fund.

BALANCE SHEETS AT 31st MARCH 1961**Parkinson Cowan Limited**

31st December 1959		1961	
£	£	£	£
514,132		548,279	
1,163,753		1,342,467	
189,710		603,057	
	1,353,463		1,945,524
389,367		544,504	
191,829		169,152	
3,870		3,964	
12,130		2,151	
	597,196		719,771
	2,464,792		3,213,575
182,423		196,096	
		829,074	
12,863		3,841	
57,374		28,687	
	252,660		1,057,698
	<u>£2,212,132</u>		<u>£2,155,877</u>
241,640		211,515	
486,230		486,230	
749,372		749,372	
734,890		708,760	
	1,484,262		1,458,132
	<u>£2,212,132</u>		<u>£2,155,877</u>

Parkinson Cowan Group Consolidated**Capital Employed**

	1961		31st December 1959	
	£	£	£	£
Fixed Assets (Note 1)		1,432,706		1,158,595
Goodwill and Patents (Note 2)		107,584		56,614
Subsidiary Companies:				
Shares at Cost, less amounts written off				
Advance and Current Accounts				
Current Assets				
Stock and Work in Progress	1,775,565		1,392,805	
Debtors and Debit Balances	741,961		945,066	
Quoted Investments at Cost (Note 3)	35,337		35,243	
Cash at Bank and in Hand	33,967		25,975	
	2,586,830		2,399,089	
	4,127,120		3,614,298	
Less Current Liabilities				
Creditors and Accrued Charges	626,405		723,199	
Bank Overdrafts	870,539			
Current Taxation	137,096		147,987	
Proposed Final Ordinary Dividend (Net)	28,687		57,374	
	1,662,727		928,560	
	<u>£2,464,393</u>		<u>£2,685,738</u>	
Represented by				
Loan Capital (Note 4)				
3½ per cent. Debenture Stock (Secured)	211,515		241,640	
Secured Loan (Subsidiary)	21,000			
	232,515		241,640	
Preference Capital—7 per cent. Cumulative Preference Stock (Note 5)	486,230		486,230	
Ordinary Stockholders' Funds				
Ordinary Stock (Note 5)	749,372		749,372	
Revenue Reserves (Note 6)	969,277		999,146	
Total Ordinary Stockholders' Funds	1,718,649		1,748,518	
Minority Interests in a Sub-subsidiary	9,477			
Estimated Future Income Tax	17,522		209,350	
	<u>£2,464,393</u>		<u>£2,685,738</u>	

The notes on page [573] form part of these accounts.

H. P. Barker }
Geoffrey Vickers } **Directors**

Note 1. Fixed Assets

At cost or net book value at 31st December 1946

Freehold Land and Buildings
Leasehold Land and Buildings
Plant, Machinery, Tools, Fittings, Vehicles,
etc.

Parkinson Cowan Ltd.

Freehold Land and Buildings

Leasehold Land and Buildings

Plant, Machinery, Tools, Fittings, Vehicles,
etc.

No depreciation has been provided for the period on Freehold and Long Leaseholds except certain properties held by subsidiary companies.

Note 2. Goodwill and Patents

This represents the cost of Goodwill and Patents less amounts written off, including in the case of the Consolidated figures, the excess of the cost of Shares in Subsidiary Companies over the book value of the net assets at the date as from which the shares were acquired.

Note 3. Investments

Quoted Investments at book value
Market Value 31st March 1961

Note 4. Loan Capital

3½ per cent Debenture Stock (Secured)

Amount issued

Less Redeemed to date

(Final Redemption date 31st December
1962)

4½ per cent I.C.F.C. Loan (Secured) (Sub-
sidiary)

Note 5. Authorised Capital

600,000 7 per cent Cumulative Preference
Shares of £1 each

900,000 Ordinary Shares of £1 each

The Issued Capital has been converted into
stock and is transferable in units of £1.

Note 6. Reserves-Revenue

Consolidated

General Reserve as at 31st December 1959

Add Profit on Debenture Stock redeemed

during 1960

Transfer from Profit and Loss Account

Dividend Equalisation Reserve as at 31st

December 1959

Add Transfer from Profit and Loss Account

Deduct Transfer to Profit and Loss Account

Total Reserves excluding Unappropriated

Profit

Unappropriated Profit as at 31st December

1959

Add Retained from this period's account

Total Revenue Reserves at 31st March 1961

Parkinson Cowan Limited

Total Reserves excluding Unappropriated

Profit as Consolidated

Unappropriated Profit as at 31st December

1959

Add Retained from this period's account

1961

£

619,318

178

—

619,496

70,000

31,000

39,000

658,496

309,828

953

310,781

£969,277

658,496

45,572

4,692

50,264

£708,760

1959

£

519,153

165

100,000

50,000

20,000

—

70,000

689,318

249,814

60,014

309,828

£999,146

689,318

19,663

25,909

45,572

£734,890

Parkinson
Cowan Ltd.
Consolidated
£
70,000

Note 7
Capital commitments not provided for in these accounts
total approximately

Note 8
Overseas currencies incorporated in these accounts have been con-
verted on the following bases:

New Zealand currency, £100 per £100 sterling.

Australian currency, £125 per £100 sterling.

South African currency, R.200 per £100 sterling.

Canadian currency,

(a) Fixed Assets at rate of exchange ruling when the Assets were

acquired.

(b) Current Assets and Current Liabilities at the rate of exchange

ruling on 31st March 1961.

Consolidated Profit and Loss Account

Note 9. Directors' Emoluments

Salaries and Pension Fund Contributions

Past Directors' Retiring Allowances for Services as Directors

Paid by Holding Company
Paid by Subsidiary Companies

Note 10. Taxation

Estimated Liability of the period:

Income Tax, less recoverable

Less Double Taxation Relief

Profits Tax

Less Double Taxation Relief

£

5,000

50,647

2,412

£58,059

43,263

14,796

£58,059

£

3,985

3,681

6,353

953

5,400

£5,704

CITY NOTES

ATENTATIVE improvement in the equity market mood has not been translated into anything more than a little cautious and extremely selective buying. There have been too many reports of lower industrial profits for the equity market to feel exactly confident.

Not that it is sensible, under current conditions, to take an overall view of 'the market' as such. Some sections - shipping, shipbuilding, hire-purchase finance, electrical goods amongst them - can hardly be considered from a bullish angle.

The gilt-edged market is drawing the main bulk of investment money. The outstanding success of the L.C.C. cash and conversion operation was a reflection of the movement of funds towards the Government and Corporation stock sections under conditions in which a further marginal reduction in interest rates is a distinct probability.

The investment accent is likely to remain on safety rather than risk under present circumstances and suggestions of a reliable equity recovery may be premature.

RATES AND PRICES

Closing prices, Tuesday, October 24th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate			
Aug. 14, 1958	4½%	Oct. 27, 1960	5½%
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6½%

Treasury Bills

Aug. 18	£6 14s	1.83d%	Sept. 22	£6 10s	6.51d%
Aug. 25	£6 14s	0.12d%	Sept. 29	£6 11s	0.48d%
Sept. 1	£6 14s	0.50d%	Oct. 6	£6 2s	5.80d%
Sept. 8	£6 12s	10.81d%	Oct. 13	£6 0s	0.28d%
Sept. 15	£6 11s	10.99d%	Oct. 20	£5 18s	5.35d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	5-5½%	2 months	6½-6½%
Fine Trade Bills		3 months	6½-6½%
3 months	7½-8½%	4 months	6½-6½%
4 months	7½-8½%	6 months	6½-6½%
6 months	7½-8½%		

Foreign Exchanges

New York	2.81½-11	Frankfurt	11.26½-27½
Montreal	2.90-1	Milan	1747½-8
Amsterdam	10.16-1	Oslo	20.04-1
Brussels	140.21½-1	Paris	13.84½-1
Copenhagen	19.38½-1	Zürich	12.16½-1

Gilt-edged

Consols 4%	60½	Funding 3% 59-69	81½
Consols 2½%	39½	Savings 3% 60-70	79½
Conversion 5½% 1974	94½	Savings 3% 65-75	71½
Conversion 5% 1971	92½	Savings 2½% 64-67	84½
Conversion 3½% 1969	85½	Treasury 5½% 2008-12	83½
Conversion 3½%	52½	Treasury 5% 86-89	81½
Exchequer 5½% 1966	97½	Treasury 3½% 77-80	70½
Funding 5½% 82-84	91½	Treasury 3½% 79-81	69½
Funding 4% 60-90	88½	Treasury 2½%	38½
Funding 3½% 99-04	57½	Victory 4%	93½
Funding 3% 66-68	83½	War Loan 3½%	54½

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for the opinions expressed.

Should Britain Decimalize?

SIR, - In all the many articles and letters which you have printed on this subject, including the Institut memorandum to the Chancellor, I have found mention of what seems to me to be the ultimate solution so far as currency is concerned.

A significant and lasting contribution which this country could make towards Anglo-American and N.A.T.O. unity, European unity, and the improvement of international understanding generally, would be to dispense altogether with pounds, shillings and pence, and with them the plethora of ingenious attempts to make them fit, and simply adopt a British dollar of approximate parity with Canadian and United States dollars. A European dollar might follow.

Tradition? One hundred and fifty years ago the Bank of England used to issue silver coins bearing the inscription 'Five Shillings One Dollar'.

Yours faithfully,

St Annes on Sea. NORMAN LAWTON, F.C.I.

SIR, - In his article in your issue of September 16 Mr Jack Clayton describes in some detail the inflationary aspect of the change to a decimal currency if the method recommended by the Council of the English Institute (and others) is adopted. Would not be preferable to make the change by a method which avoids inflationary problems and does not create others?

The inflationary problems described by Mr Clayton are the result of taking ten shillings as the basic unit and dividing by 100 giving a unit of currency the present equivalent of which is 1.2 pence. If, however, the existing penny is retained as the basic unit without any change in its value and no coins are issued for 5d, 10d and 20d and a new note for 100d (8s 4d), then no inflationary problems would arise. Existing sixpences and shillings could continue to circulate mainly for use in slot machines and gradually withdrawn as the machines become obsolescent.

There is also the problem of giving a name to the new note for 100d. I suggest that we could continue to use the description 'pound'. For the purpose of foreign exchange the Government should announce that on the appointed day the £ will be devalued to 100/240ths of its present value. The new note could then be known as the 'New Pound' and the present £ as the 'Old Pound'. When the new decimal currency is well established and all old notes have been withdrawn the word 'new' could be dropped.

To assist the general public during the early stages of the new system prices could be quoted in both the old and the new currencies thus:

Present	New
3d	3d
5s 6d	66d
8s 4d	N£1
O£2 1s 8d	N£5
O£10 0s 0d	N£24
O£10 1s 9d	N£24·21

Yours faithfully,
E. FEIST, A.A.C.C.A.

Boxmoor, Herts.

Tax: Non-Resident Director's Remuneration

SIR, – Could any of your readers say precisely how the tax (if any) on the remuneration paid to a non-resident director of a company registered and operating in the United Kingdom is assessed:

- If his duties are performed in his own country, i.e. France, and
- If they are performed partly in his own country and partly in the United Kingdom.

Yours faithfully,
ENTENTE CORDIALE.

NATIONAL TAXATION CONFERENCE SUCCESSFUL MEETING AT BOURNEMOUTH

The eleventh national taxation conference organized by our contemporary *Taxation* was held from Friday of last week until last Monday in Bournemouth. There was an attendance of several hundreds and members of the accountancy and legal professions and representatives from industry and commerce once again found the papers on various aspects of taxation law and practice of great value and interest. The conference was under the chairmanship of Mr Percy F. Hughes, Editor of *Taxation*.

CHAIRMAN'S OPENING ADDRESS

Opening the conference on Friday afternoon, Mr Percy F. Hughes said:

Sometimes when we have met during the last ten years, the economic barometer has been on the up and up and sometimes it has been down. Sometimes we have looked for an easing of the taxation burden and sometimes we have feared the worst. I am not a pessimist but I do not think that anyone who looks today at the state of our national economy would forecast any worth-while lowering of our general level of direct taxation in the next Budget. But we must not be downhearted – after all, the Finance Act of 1961 contains legislation which is designed to give a substantial measure of surtax relief to those surtax payers with earned income. The effect of this legislation is to reduce the number of surtax payers to less than one-quarter of the present number. But these benefits will not be felt until January 1963, and in the meantime other forms of taxation, particularly profits tax, have been increased.

Decentralization of Surtax

It may well be that with a substantial drop in the number of surtax payers, the Commissioners of Inland Revenue will find it possible to agree to the decentralization of the administration of surtax. This is a subject that has received attention from time to time in various quarters, particularly by the Royal Commission on the Taxation of Profits and Income, which reported in June 1955. The Royal Commission said that they 'saw no objection of principle that need

stand in the way of a scheme of surtax decentralization which offers prospects of administrative saving'. When first introduced in 1909, as supertax, the number of taxpayers liable to the tax was small and it is thought that their sensitivity to the disclosure of their affairs to local General Commissioners was a strong factor in favour of central assessment. The matter has, however, been referred to quite recently by the Select Committee on Estimates, and the report of the Committee states that the main argument in favour of decentralization is based primarily on the fact that nearly all the information required by the Special Commissioners is provided by Inspectors in the tax districts. The Select Committee accordingly recommended that the Board of Inland Revenue should re-examine the possibility of decentralizing surtax before the end of 1962.

Graduation of Rates of Tax

In his Budget statement on April 17th, 1961, Mr Selwyn Lloyd said that consideration had been given to bringing surtax into the P.A.Y.E. scheme, but there were certain practical difficulties, particularly in the year of change. He had therefore come to the conclusion that the best thing to do was to work for the assimilation of the rules governing income tax and surtax as far as practicable. For my part I feel that the whole system of graduation covering allowances and reliefs, reduced rates of tax, standard rate and rates of surtax all require review in order that sudden increases in liability are avoided as the taxpayer's income passes beyond certain points. A smoothing out of the steps would, in my view, do much to remove grievances which exist in the minds of many workers at all income levels.

Artificial Conception of 'Income'

It is said that income tax is a tax on income, but strange as it may seem to a layman, the Income Tax Acts have never defined income for income tax purposes. The principle has always been followed that if an item of receipt falls within the Schedules A, B, C, D and E of the Income Tax Acts, it is to be assessed,

but otherwise there is no liability. The Finance Act of 1960 increased the artificiality of the tax conception of income by bringing within the scope of the tax certain receipts which have always been regarded as capital. It would seem that the Chancellor of the Exchequer has set his face against a capital gains tax, but in his Budget speech this year he reminded us that individuals or firms who make a business of seeking capital gains on the stock exchange or in property or other deals are trading and are liable to the full rates of income tax, surtax or profits tax on the profits from such activities. On the other hand, people who are genuinely investing come into a different category, and on which side of the line particular cases fall was not a matter for him or the Board of Inland Revenue but for the General or Special Commissioners or the Courts.

Last week the Chancellor of the Exchequer said that there are some transactions such as short-term deals on the stock exchange and in property which were intended to bring in what was really spending money or income and he has promised to tax them as such. It would seem, therefore, that in the next Budget we may well find some increase in the artificiality of what is to be considered as income for income tax purposes, but perhaps this is better than the introduction of an entirely fresh and additional tax.

Schedule E Expenses

On the subject of business expenses, by which I mean those falling to be considered for allowance under paragraph 7 of the Ninth Schedule, Income Tax Act, 1952, in relation to Schedule E, the Chancellor of the Exchequer has said that this is a matter very difficult to deal with by legislation, but he is again reviewing the position. For many years I have pressed for an amendment of the archaic wording of this rule. A horse is a very beautiful creature and those who keep them tell me that the maintenance costs are high. Nevertheless, I feel that the time has passed for them

to be specifically referred to in the Schedule E expenses rule. After all no specific mention is made of the cost involved in running a motor-car. The real criticism of the rule does not, of course, arise from the reference to a horse, but from the fact that the taxpayer must show that he is necessarily obliged to expend money wholly, exclusively and necessarily in the performance of the duties of his office. A more satisfactory form of wording was suggested by the Royal Commission and successive Chancellors of the Exchequer have promised to devote their attention to this matter. I hope that it will be tackled by the present Chancellor and that very soon.

Evasion of Tax

The back duty provisions of the Finance Act, 1960, are now being worked out in practice. The hand of the Revenue has been strengthened by the ability to have assessments raised for years that would normally be out of date where there is neglect in connection with the making of returns or the submission of accounts, as a result of which there has been some loss of tax. Those of us who are concerned with cases of this nature must be ever watchful to ensure that defaulting taxpayers are not requested to make an unfair contribution to the Exchequer, having regard to the law, the gravity of the offence and all the general and varied circumstances of the case. It would seem, however, that in general the level of the Inland Revenue demand has increased under the new legislation mainly because of the statutory authority given to charge interest on the unpaid tax and the ability of the Crown to recover unpaid tax for out-of-date years in neglect cases.

Property Transactions and Taxation

Mr Edward F. George, LL.B., was the speaker at the first business session; with Mr W. S. Risk, B.COM., C.A., F.C.W.A., Immediate Past President, The Institute of Cost and Works Accountants, in the chair. Mr George



The Mock Appeal. *Left to Right:* Commissioners: Mr J. R. W. Alexander, C.B.E., M.A., LL.B., F.C.I.S., F.I.A.R.B., Mr T. A. Hamilton Baynes, M.A., F.C.A., (Chairman), Mr V. R. Chennell, F.A.C.C.A., Clerk to the Commissioners: Mr H. A. R. J. Wilson, F.C.A.

explained that buying and selling land did not produce taxable profit unless it constituted a trade. He outlined the various aspects of a transaction which had to be looked at to decide whether or not it was a trading transaction and then went on to deal with the position of companies which had transactions in hand. A company might lose immunity from tax through having an objects clause which indicated that it was formed to deal in land. Its own books and accounts, or its own minutes, might contain an indication that the transactions were trading transactions. The appeal commissioners could disregard a minute if they felt it recorded a resolution which was passed with one eye on the tax position. The fact that the Revenue treats a company as an investment company for years does not prevent them from assessing the company as a trader if there is a change of mind at Somerset House.

Where it is established that a company is in fact a dealing company, then nice problems arise as to the computation of the profit, in particular the valuation of work in progress and of such things as freehold reversions with ground-rents, and money lent to purchasers or deposited with their mortgagees.

Mr George reviewed Sections 21-24 of the Finance Act, 1960, and explained the kind of transaction at which these sections were aimed. He observed that Section 21 was confined to companies whose activities consist of or include 'the erection or the securing of the erection of a building' and added that it was by no means clear precisely what type of trade this was intended to cover. At any rate it did not hit an investment company which built for investment. The apparently simple device of forming an investment company, buying land, developing it by building, winding-up and realizing the assets within six years of completing the building was similarly struck down. But mere conversion was not erection.

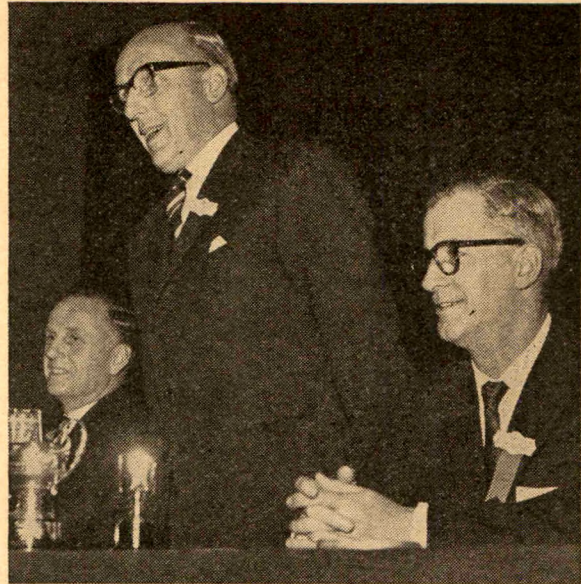
Mock Appeal Meeting

A mock appeal meeting was held on Saturday morning, when the Commissioners heard five appeals of a wide and general interest. The Commissioners were: Mr T. A. Hamilton Baynes, M.A., F.C.A. (Chairman), and Messrs J. R. W. Alexander, C.B.E., M.A., LL.B., F.C.I.S., F.I.A.R.B., and V. R. Chennell, F.A.C.C.A. Clerk to the Commissioners: Mr H. A. R. J. Wilson, F.C.A. Counsel for the Appellant: Mr A. L. Philips. Inspector: Mr H. F. Hodgkinson. Accountants: Messrs J. M. Cooper, A.A.C.C.A., A.C.I.S., J. A. H. Luke, F.C.A., A. N. Sullivan, A.C.A., and K. R. Tingley, A.A.C.C.A.

Hire-purchase Companies

The first address on Saturday afternoon was given by Mr Julian S. Hodge, F.A.C.C.A., under the title 'The effect of taxation on industry - with particular reference to hire-purchase companies'. The chairman was Mr John Eden, M.P.

The three main forces which beset the hire-purchase industry were, according to Mr Hodge, hire-purchase controls, indirect taxation in the shape of purchase tax, and direct taxation (income tax and profits tax). As to the first, and somewhat unhappy, topic, so many changes had occurred in recent years that the managing director of a hire-purchase company needed a crystal ball. The changes since 1957 had been violent and ill-considered. He thought that most of the domestic



At a technical session: *Left to right:* Mr Geoffrey H. Vieler, F.C.A., Speaker; Mr G. E. Cameron, F.C.A., Immediate Past President, The Institute of Chartered Accountants in Ireland, Chairman; Mr H. P. Kennett, Conference Secretary.

problems stemmed from the Government's hasty act in November 1958, about which the hire-purchase industry was not even consulted.

Mr Hodge devoted a good deal of his address to the third topic, direct taxation. He thought the essence of a good tax system was fairness and simplicity. As to fairness, the different treatment accorded to Schedule E and Schedule D was anomalous. As to simplicity, one had only to look at the Finance Act, 1960, apart from the Income Tax Act, 1952, to see that the opposite of simplicity prevailed. This should be changed. Coming to hire-purchase companies themselves, he pointed out that the large stock of motor vehicles shown on the balance sheet represented contract hire vehicles. The fact that they were hired out meant that investment allowance could be claimed on them.

Progressive and prudent hire-purchase companies had investments too. When one was sold at a loss there was a strange and wonderful silence on the part of the Inland Revenue: but let an investment be sold at a profit and the inspector at once took up the question whether the profit could be taxed, on the footing that the company was a dealer in investments. Owing to the vague state of the law these disputes took up a good deal of time and made for uncertainty. On the subject of debtors, Mr Hodge said he found it easier to have each individual hire-purchase account examined at the accounting date, and each individual figure of unearned interest ascertained. It was hard work but it meant at least that both shareholders and the Inland Revenue knew where they stood. The two extremes in assessing unearned interest were:

- (i) To treat the charges attaching to each contract as unearned until the contract had been completed; or
- (ii) To treat the charges as being earned immediately each contract was accepted.

No finance company adopted either extreme; almost without exception they followed some middle course. The true middle course was to bring in to credit a small but adequate setting-up charge and to spread the remainder on an actuarial basis so as to produce a constant rate of interest on the principal balances outstanding, as was done by a building society with a mortgage account. Since the cost of money to a finance company was calculated at an established rate on a day-to-day basis on the actual balances owing to bankers and depositors, this method would seem to give the most accurate presentation of the company's performance.

As hire-purchase companies were not regarded as banks, the interest they paid to depositors would normally be annual interest from which they were entitled to deduct tax and which they therefore could not charge as an expense. This, of course, would cause considerable inconvenience to depositors not liable to tax at the standard rate. The hire-purchase companies solved this problem by ensuring that the contract with the depositor was such that the interest was not 'annual' interest. The contract did not run for a full year. It ran for eleven months, at the end of which a new contract was made. In practice it merely meant that the depositor signs a form closing the account and re-opening it the next day. The speaker could not help wondering, however, why the Inland Revenue would not simply treat the hire-purchase companies as banks.

Mr Hodge concluded with a strong plea for more consistency in the tax system; instancing the conflict between the provisions for surtax direction and the Chancellor's plea for restraint in the payment of dividends, and the arbitrary stopping and starting of investment allowances.

Thoughts on our Present Discontents

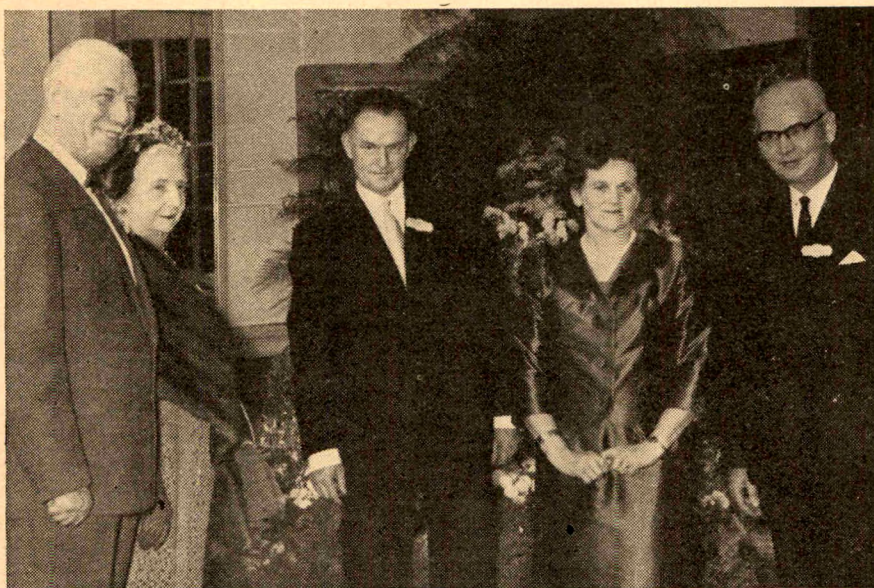
Mr Hodge was followed by Mr A. G. Davies, LL.B., who gave a stimulating address on 'Thoughts on our present discontents'. Mr A. S. Watson, F.C.A., President, South Eastern Society of Chartered Accountants, was in the chair.

Mr Davies said that perhaps he should begin by congratulating the present Chancellor on the breath of fresh air he introduced into the last Budget by saying that he had come to the Treasury with pre-conceived ideas. He welcomed the challenge that the Chancellor had made to the idea of standard rate tax deduction at source. In the speaker's view the existence of this method probably accounted in large part for the growth in dividend-stripping, over the last ten years. Moreover, it caused much greater inequity between companies than the two-tier profits tax system had done. One had only to compare the income tax burden of a company which paid out all its distributable profits with one which did not, to see the difference which recouping income tax from dividends could make on effective tax rates. Moreover, investment allowances and depreciation against the profits of such companies as shipowners must make even the Revenue wonder, when they 'repaid' tax which had not been paid and probably never would be paid, whether they were sacrificing common sense to an ancient shibboleth.

It had taken much biting criticism in the *Hinchy*¹ case to induce Parliament to introduce a new penalty system in 1960, although experts had been calling for a review many years before. The history of the introduction of relief for overseas trade corporations read like a tug-of-war. The report of the Royal Commission was not clear enough for one to say with certainty whether it thought that overseas subsidiaries should be included or not.

Was it too soon, asked Mr Davies, to suggest that our legislative process in matters of taxation was as antiquated as the sewage system of medieval England? He thought we ought to have some research organization which would objectively analyse the various facets of the tax system. It should be divorced from the existing tax committees which did such useful work at present. It should be a continuing organization - with trained researchers having a good academic background, fortified by experts having good accounting and legal skills, and for good measure an economist or two. The

¹ 39 A.T.C. 13.



At the reception on Friday evening.

Left to right: Mr William Jackson, F.A.C.C.A., Past President, The Association of Certified and Corporate Accountants, Mrs Jackson, Mr Percy F. Hughes, Editor of *Taxation* and chairman of the conference, Mrs Hughes, Mr Alexander McKellar, C.A., Immediate Past President, The Institute of Chartered Accountants of Scotland.

findings of such an organization should have such authority as to make it impossible for any Government to ignore them. Mr Davies instanced the Canadian Tax Foundation as a splendid example of what should be done here to examine all the major tax anomalies and to suggest remedies. Mr Davies also suggested a joint committee representing the Inland Revenue and the legal and accounting professions, such a liaison could be a fruitful forum for bringing tax laws up to date. Discussions on future legislation should not be confined to the interior of Somerset House.

Other countries contrived to produce excellent memoranda explaining their pending Finance Bills. Requests for them here had not produced any results, but there was no excuse for such a refusal. Again it had suggested that decisions of the Special Commissioners should be published, in order to assist tax practitioners. The Special Commissioners themselves had argued that this would be a heavy undertaking and would have the effect of prolonging appeals when their own reports were cited. The Royal Commission had also been against it, but the speaker did not agree with either body. Tax inspectors threw Special Commissioners' decisions against the taxpayer, why could he not throw some back?

Mr Davies devoted a large part of his address to what he called the 'Alice in Wonderland' area of the taxation of overseas income. He suggested that the present complicated set-up be replaced by taxing overseas income at a percentage of the rate charged on home income. The advancing of the United Kingdom tax frontier every time the overseas frontier retreated smacked of fiscal colonialism. Section 17 of the Finance Act, 1961, was probably induced by the political embarrassment caused by the system. Even now, Section 17 went only part of the way.

Mr Davies complained that the law relating to pension schemes left too much power in the hands of the officials. He stressed that Revenue officials were not infallible and instanced a few examples from Court decisions.

Valuation of Stock and Work in Progress

On Monday morning the first address was given by Mr Geoffrey H. Vieler, F.C.A., on the valuation of stock and work in progress, with Mr G. E. Cameron, F.C.A., Immediate Past President, The Institute of Chartered Accountants in Ireland, in the chair.

Mr Vieler said that one of the most marked changes of the past fifteen years was the increasing attention which the Inland Revenue paid to stock valuation. Pre-war, the completion of Form 81 was almost invariably the last an accountant heard of the subject from the Inland Revenue. The only mention in the Acts was Section 143 of the Income Tax Act, 1952, which section, incidentally, applied even when a trade was treated, under Section 17 of the 1954 Act, as continuing. The speaker reviewed some of the cases where stock valuation had been in issue, and quoted judicial pronouncements on the topic. He then described the various methods commonly in use: FIFO, LIFO, base stock, standard cost, adjusted selling price.

The speaker said that the definition of 'market value' was a most contentious question. It could mean the net realizable value, on sale in the ordinary course of business. It could mean the same value after deducting

selling costs; or it could mean the current replacement value. He referred to Appendix II of the Royal Commission's final report, and to Recommendation 22 of the Institute. The Revenue did not demur in general from what was said in the Recommendation but they had a reservation about the recommended deduction for 'all expenditure to be incurred on or before disposal'. In general they did not agree that general selling costs to be incurred in the future should be allowable.

However, in practice they might accept a deduction for specific identifiable items of expenditure directly connected with the stock in question. They would not accept a value below cost for stocks covered by forward sales above cost. Special bases were adopted for certain businesses, which the speaker outlined.

It would be wrong to think that the methods outlined above covered every conceivable case; he gave several specific instances: a refinery which discovered new uses for by-products, a cinematograph film, antique jewellery which remains in stock for years, seasonal products from abroad.

The remainder of the address was devoted to an examination of three recent cases: *Broadstone Mills*, *Anaconda American Brass* and, of course, *Duple Motor Bodies*.

Taxation and the Professional Man

Mr Douglas S. Morpeth, B.COM., A.C.A., gave the last address. It was entitled 'Taxation and the professional man', and Mr Alexander McKellar, C.A., Immediate Past President, The Institute of Chartered Accountants of Scotland, was in the chair.

After referring to the ethics of tax avoidance, Mr Morpeth described the method of taxing partnerships and pointed out the inequities which could arise when there was a change in the constitution of the partnership or in the profit-sharing ratios. There was considerable scope for timing both a change in the partnership and the accounting date. As an option for continuance could not be exercised without unanimity, the lack of which could cause hardship, to the partnership as a whole, it was useful to insert a provision in the partnership articles under which the majority could force the exercise of the option.

Mr Morpeth then discussed the various bases of computing profit; cash and earnings. The latter meant more complication and also the earlier payment of tax by an expanding business. But even where the cash basis was adopted it was prudent to calculate the profit on the earnings basis as well, to see how the business was really faring. It seemed that the Revenue had the right to insist on the earnings basis in the closing years. Assuming it was not applied, were cash receipts thereafter taxable? This involved a study of the Finance Act, 1960, the relevant provisions of which were outlined by the speaker.

After a cessation, the Revenue would insist on the earnings basis for the opening years. In some cases the Revenue would agree thereafter to a reversion to the cash basis, but on condition that there was regular billing of clients and no attempt to hoard potential profits.

Mr Morpeth outlined the mechanics and the advantages of service companies set up by professional men as a way of accumulating profit without the immediate payment of surtax, and (a rather less important matter) the participation of the partners in a luncheon

voucher scheme. From service companies the speaker passed to indemnity and accident insurance and the treatment of moneys recovered under such insurance. He then devoted the remainder of his address to the complex problems of provision for retirement, dealing in particular with the relative merits of an annuity contract under the Finance Act, 1956, and an ordinary endowment policy.

Civic Reception and Dance

The Mayor and Mayoress of Bournemouth, Councillor and Mrs Deric S. Scott, gave a civic reception and dance on Saturday evening in the Pavilion Ballroom.

Church Service

Morning Service for conference members and their ladies, conducted by the Reverend T. E. Evans, was held at St Peter's Parish Church on Sunday morning.

Golf Competition

Mr N. Grenfell, A.C.A., was the winner of the eighteen-hole Stableford gold competition which was held on Sunday on the course of the New Northbourne Golf Club. The *Taxation* Golf Challenge Cup was presented to Mr Grenfell by Mrs T. J. M. Staples.

Reviews

Development from Below

Local government and finance in developing countries of the Commonwealth, by URSULA K. HICKS. (Oxford University Press, London. 35s net.)

The role of local government in the emergent territories of the Commonwealth extends from the provision of a training ground for future national politicians and administrators to the implementation of economic and social programmes for the development of the region. As is all too well known in Britain, the scope and independence of local government is dependent upon the degree of financial independence and autonomy. Central financial aid is indispensable, but its effects may range from a virtual hamstringing of local initiative to the active encouragement of local enterprise. Mrs Hicks's new work covers both these aspects of local government in a dozen territories of the Commonwealth; in Africa, the West Indies and in Asia. The material has been collected first-hand by visits to all these areas with the co-operation of the local officers; the mere bulk of the study is a tribute to the author's labours.

The text falls clearly into three main sections. First there is an account, region by region, of the administrative structure with some historical background; second follows a closely woven and well-integrated analysis of local budgets on revenue and capital account, and finally there is a shorter section discussing the local authorities' relations with the central Government. This is not a mere catalogue; throughout the exposition of facts there is continuous reference to the historical and social factors which have produced the present situation. For the specialist in local authority finance this will prove an interesting work.

Accounting for Local and Public Authorities

by ROY SIDEBOTHAM B.A.(COM.)(Manchester) and C. S. PAGE, B.COM.(HONS.)(London). (Gee & Co (Publishers) Limited, London. 40s net, 41s 6d post free (inland).)

This book is a welcome addition to the rather limited range of literature which deals with purely practical aspects of public authority accounting. The authors are both prominent lecturers in public finance - Mr C. S. Page is Principal Lecturer in Accounting at the Scottish College of Commerce, and Mr Sidebotham has recently been appointed to the newly created Chair of Accountancy at Victoria University, New Zealand.

The authors have had the interests of students particularly in mind throughout the book, as is shown by the prolific number of examples of specimen forms and accounts. The first part of the book deals with 'Common Principles' - an extremely useful introduction which outlines the principles of accounting in the public service for income and expenditure, capital finance, revenue account and balance sheet. Part II deals specifically with local authorities and their finances; included in this part are housing accounts and rates and water charges; a particularly valuable specimen calculation of the product of a penny rate is given; trading accounts and special funds are outlined, and the authors take the student into a brief excursion through the rather more intricate subject of loans and capital accounting.

One or two points call for correction, however; the first post-war valuation became operative from April 1st, 1956, not April 1st, 1958, and the gross value of dwelling-houses is based upon the rent at which the premises might have been let on or about June 30th, 1939, not September 30th, 1939. Readers will also have to give regard to the Rating and Valuation Act, 1961, which now introduces many new features and revises a number of accounting and administrative procedures. In the chapter dealing with housing accounts it would have been more complete if reference had been made to the Housing (Financial Provisions) Act, 1958, which, *inter alia*, consolidated the law on housing accounts.

Chapters 11-13 deal concisely with the finance and accounts of the public boards - hospital, gas and

electricity – and the practice of Scottish local authorities and public boards is well portrayed in Part IV.

The index has been very carefully planned, a feature of which is the underlining of page numbers where a specimen account or example is included. For the student of public finance, this book will prove of immense value, it is easily readable and will serve its prime function – as an introduction to more specialized reading – more than adequately.

RECENT PUBLICATIONS

INVESTMENTS. Third edition by George W. Dowrie, PH.D., Douglas R. Fuller, PH.D., and Francis J. Calkins, PH.D. viii+561 pp. 9½×6. 72s net. John Wiley & Sons Ltd, Gordon House, Greencoat Place, London SW1.

CONTRIBUTIONS OF FOUR ACCOUNTING PIONEERS: Kohler, Littleton, May, Paton, edited by James Don Edwards, PH.D., C.P.A., and Roland F. Salmonson, PH.D. 238 pp. 9½×6½. \$6.50. Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University, East Lansing.

BID FOR POWER, third edition, by George Bull and Anthony Vice. 299 pp. 9×6. 35s net. Elek Books Ltd, 14 Great James Street, London WC1.

INVESTMENT AND PRODUCTION, by Vernon L. Smith. Harvard Economic Studies Vol. CXVII. xi+340 pp. 8½×6. 60s net. Harvard University Press. London: Oxford University Press.

PAGE'S LAW OF BANKING, Sixth edition, by Maurice Megrah, M.COM.(LOND.), LL.B., F.I.B. lvi+631 pp. 10×6½. 57s 6d net. Postage 2s 9d. Butterworth & Co (Publishers) Ltd, London.

RADICAL REACTION, Essays on Competition and Affluence, by A. P. Herbert, Graham Hutton, Norman Macrae, Arthur Seldon, Anthony Vice and B. S. Yamey. Introduced and edited by Ralph Harris. 306 pp. 9×6. 25s net. Published for the Institute of Economic Affairs, by Hutchinson & Co (Publishers) Ltd, London.

THE TAX MAN COMETH, by J. R. Brummell. 151 pp. 9×6. 15s. Old World Books, 127 Staplers Road, Newport, Isle of Wight.

BUSINESS CONSORTIA, by A. Harding Boulton, LL.B.(LOND.), F.C.I.S. vii+124 pp. 8×5. 30s (United Kingdom only). Sweet & Maxwell Ltd, London.

RANKING, SPICER & PEGLER'S EXECUTORSHIP LAW AND ACCOUNTS, twentieth edition, by H. A. R. J. Wilson, F.C.A. xxxix+391 pp. 10×7½. 40s net. H.F.L. (Publishers) Ltd, London.

SLATER'S MERCANTILE LAW, fourteenth edition, by Lord Chorley, Q.C., M.A., and O. C. Giles, LL.M. xlviii+469 pp. 9×6. 30s net. Sir Isaac Pitman & Sons Ltd, London.

ACCOUNTANCY, by K. S. Carmichael, A.C.A. 72 pp. 7×5. Card covers. 3s 6d net. The Sunday Times, 200 Gray's Inn Road, London WC1.

MEASUREMENT AND CONTROL OF OFFICE COSTS, by Serge A. Birn, R. M. Crossan and Ralph W. Eastwood. ix+318 pp. 9×6 58s. McGraw-Hill Publishing Co Ltd, London.

HOW TO PAY LESS INCOME TAX, second edition, by H. Tochn, B.COM. 168 pp. 9×5½. 18s net. Museum Press Ltd, London.

THE ADMINISTRATION OF DECEASED ESTATES IN SOUTH AFRICA, by David Shrand, M.COM., F.S.A.A., C.A.(S.A.) xii+348 pp. 9×6. 57s 6d (R5.75). Legal & Financial Publishing Co (Pty.) Ltd, P.O. Box 3461, Cape Town.

TAX CASES, Reported under the Direction of the Board of Inland Revenue, Vol. 38, Part 9 (pages 603-671). 9½×6. Paper covers. 3s 6d net. (Subscription £1 15s per volume, including postage.) H.M.S.O. London.

FOR STUDENTS

EFFECT OF CORPORATE PERSONALITY

THE full significance of corporate personality which in any event was only grasped by the Courts themselves in the celebrated case of *Salomon v. Salomon* ([1897] A.C.) is sometimes overlooked by students (and others). It is the purpose of this article to examine not only the practical effect of the rule but to show how first the Legislature, and secondly, the Courts have had to introduce exceptions to its basic principle in order to prevent the legal façade presented by artificial personality from masking to too great an extent the realities behind it.

The Facts in *Salomon*

In *Salomon v. Salomon*, one Salomon carried on a successful trade as a leather merchant, which in 1892 he decided to convert into a limited company. For this purpose Salomon & Co Ltd was formed with Salomon, his wife, and five of his children as members. The company purchased the business for £39,000, a figure which in the words of Lord Macnaghton represented:

'the sanguine expectations of a fond owner rather than anything that can be called a businesslike or reasonable estimate of value'.

The important aspect of this transaction was that Salomon held 20,001 of the 20,007 shares issued and that part of the satisfaction for the purchase price consisted of £10,000 in debentures carrying a charge

over all the company's assets again initially held by Salomon.

The company almost immediately got into difficulties and went into liquidation. The assets were sufficient to discharge the debentures but nothing was left for the unsecured creditors. The unsecured creditors, however, contended that the company was a mere sham and nothing more than agent or trustee for Salomon, hence there was a liability for Salomon to indemnify the company against its trading debts. This argument prevailed in the Court of First Instance and in the Court of Appeal, but the House of Lords, not for the first or last time, took a different view. In the trenchant words of Lord Salisbury, 'either a company was a separate legal entity or it was not'. If it was the business belonged to the company and not to Salomon.

The effect of the case was to ensure that a company would in the future be regarded as a separate legal entity distinct from its members, capable of enjoying rights and being subject to duties which are not identical with those of the members. Of course, the decision does not mean that a promoter can set about swindling the company which he sets up, since in this capacity he is a fiduciary with duties of disclosure, nor can he defraud his existing creditors by setting up a company without falling foul of the bankruptcy laws.

In the *Salomon* case, in spite of the obvious overvaluation of the business sold to it, the shareholders

and the company could not complain, since they were fully conversant with what was being done. All of the existing creditors were paid off in full out of the purchase price. It is of course true that Section 322 of the Companies Act, 1948, would nowadays have made the floating charge void, if it could not have been proved that the company was solvent at the time of the creation of the charge, and liquidation followed within a year.

Advantages of Incorporation

Amongst the many advantages of forming a company may be mentioned limited liability, a clear distinction between the property of the company and the members, simplicity in the bringing of actions, perpetual succession, transferable shares, and easier methods of raising money than is available to an individual.

It must not be thought, however, that the consequences are a totally unmixed blessing. If a trader sells his business to a company he will cease to have an insurable interest in the assets, so that if he forgets to assign the insurance policies nothing will be payable, for example if some of the assets are destroyed by fire. Holding companies do not have an insurable interest in the assets of their subsidiaries. In exceptional cases, such as nationalization where proprietors of businesses are to be compensated on the basis of profits, owners of partnerships may receive more than owners of companies who have diminished the profits by charging large salaries.

Disregarding these comparatively minor snags, there is no question that the decision in *Salomon v. Salomon* opened up new horizons to business men and their legal advisers. They saw that a trader could put money into a business, limit his liability and avoid all but a slight risk to the larger part of that. An experienced business man can look after his interests well enough, but the small man such as the grocer or coal merchant has little or no idea of the risks he is running when he grants credit to a company which has an impressive nominal capital, has issued the shares for a 'consideration other than cash' and mortgaged its remaining assets up to the hilt.

Exceptions to the Rule

The strictness of the rule concerning separate corporate entity has meant that in a limited number of cases the Legislature has had to provide for the 'veil' to be lifted.

The most important of these exceptions is probably that provided by Sections 150-154 of the Companies Act, 1948, and the Eighth Schedule of this Act, where group entity is involved. The Act adopts a two-fold test for determining whether a company is a subsidiary of another: (1) if the other company is a member of it and controls the composition of the board of directors, or (2) if the holding company owns more than half the equity share capital. Similarly a subsidiary of a subsidiary is regarded as the subsidiary of the head holding company. An obligation is then imposed to present the holding company's profit and loss account to give a true and fair view of the state of the affairs of the group as a whole in spite of the separate entity of each individual company.

Another important exception is Section 332 of the Companies Act, 1948. This section provides in the

case of 'fraudulent trading', that any persons who are knowingly parties to the fraud shall be personally responsible without limitation of liability for all the debts and liabilities of the company or such proportion as the Court may order. This weapon is undoubtedly a powerful one and the mere threat of it may induce recalcitrant directors to assume liability for part of their companies' debts.

Of rather more academic than practical interest is Section 31 of the Companies Act, which provides that members shall personally be liable for their company's debts if numbers are reduced below the legal minimum and the company carries on business for six months in this condition with the remaining members aware of the state of affairs.

The only outside creditor that the Legislature has excepted from the full effect of the rule is, somewhat understandably, the Revenue, particularly in connection with surtax and estate duty.

The Courts have also on occasion flirted with the idea of mitigating the effect of the rule but have not met with much success except in isolated instances, owing to the rigidity of precedent.

Six Tests to Establish Agency

It is clear, however, that there is no reason - especially where there is express agreement - why a company should not act as agent of its shareholders. But where agency is left to be implied from circumstances - the more usual situation - the *Salomon* case itself shows the difficulties of establishing it. Nevertheless the Courts will sometimes leap over the barrier. In *Smith Stone & Knight v. Birmingham Corporation* six points were set out as the test necessary to establish agency:

- (1) Were the profits treated as those of the parent company?
- (2) Were the persons conducting the business appointed by the parent company?
- (3) Was the parent company the head and brain of the trading venture?
- (4) Did the parent govern the adventure and decide what should be done?
- (5) Were the profits made by its skill and direction?
- (6) Was the parent company in constant and effectual control?

However, the actual application of these tests has been erratic and without consistency (see *Ebbw Vale U.D.C. v. South Wales Traffic Area Licensing Authority*).

Other examples of judicial interference with the principle of *Salomon v. Salomon* may be found in the spheres of trust, determination of a company's residence, public policy, and group enterprise; but they cannot be reduced to a clear set of principles. The Courts have certainly made inroads on the rule but with unpredictable results.

Generally, it can be said that the assault on the principle of *Salomon v. Salomon* has been limited in the case of the Legislature to a few specific exceptions, and in the case of the Courts to where corporate personality is being used as a curtain for fraudulent conduct, where the controlling shareholder is another company (group entity) and, in a few instances, where a strict application of the rule would be inconvenient.

The separate personality of a company must therefore be regarded as one of the most distinctive features of British company law and the key to the understanding of many of its highways and byways.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

DINNER IN DUBLIN

Mr A. E. Dawson, F.C.A., President of The Institute of Chartered Accountants in Ireland, presided at a dinner of the Institute held at the Gresham Hotel, Dublin, on October 18th.

Among the guests present were: The Chief Justice, the Hon. Conor A. Maguire; the Minister for Justice, Mr C. J. Haughey, T.D., F.C.A.; the Rt. Hon. the Lord Mayor of Dublin, Councillor Robert Briscoe, T.D.; the Chairman of the Revenue Commissioners, Mr S. Reamonn; Mr Graham A. Usher, M.B.E., T.D., C.A.; President of The Institute of Chartered Accountants of Scotland; Mr P. F. Carpenter, F.C.A., Vice-President of The Institute of Chartered Accountants in England and Wales; Mr G. L. Barker, F.A.C.C.A., President of The Association of Certified and Corporate Accountants; and Mr F. M. W. Hird, F.C.W.A., F.C.A., President of The Institute of Cost and Works Accountants.

Proposing the toast of The Institute of Chartered Accountants in Ireland, Mr Usher referred to the origins and growth of the Irish Institute (which now has a membership in excess of 1,700) and which was playing an ever-increasing part in the activities of such joint committees as the Chartered Accountants' Joint Standing Committee and the Accountants' Joint Parliamentary Committee. In a reference to the Institute's examination and training system he stated that he was glad to observe the care being taken to maintain the high standards which the business community had come to expect of chartered accountants.

Value of Joint Consultation

Responding to the toast, Mr Dawson welcomed all the guests, both those of the Institute and those invited by members, and extended a particularly warm welcome to the representatives of the Scottish and English Institutes, The Association of Certified and Corporate Accountants and The Institute of Cost and Works Accountants. He referred to the happy relations which the Irish Institute has with these bodies and said the Council fully appreciated the value of joint consultation with them.

Whatever the future may hold in store for the home countries, either in association with or in competition with their European neighbours, he believed that accountants would have a very important part to play – and a very valuable contribution to make – in the processes of adjustment that lay ahead. One change which appeared inevitable was the adoption of the metric system of weights and measures and of decimal coinage and he referred to the memorandum which the English Institute had submitted to the Chancellor of the Exchequer earlier in the year urging decimalization of the currency at the earliest date consistent with an adequate preparatory period; the change-over by South Africa this year had set an example and had illustrated the difficulties which were involved.

Turning to company law, Mr Dawson referred to the new Companies Act in Northern Ireland which had

come into force earlier in the year and which – though following the British Act of 1948 in most respects – included provisions regarding the qualifications of those who may be appointed auditors of private companies.

In the Republic, although company law was still mainly embodied in the Act of 1908, some welcome changes had been introduced by the amending Act of 1960 and the profession was now awaiting the comprehensive amending and consolidating Act which was expected shortly and which it was hoped would bring Irish company legislation into line with the best modern practice. Mr Dawson said that company law, however, was not static and it was almost certain that existing legislation in Great Britain would be changed as the result of the deliberations of the Jenkins Committee.

Policy and Examination Committees

Mr Dawson then spoke of the work of the Institute's Policy and Examination Committees. The former committee, whose recommendations regarding the introduction of the Members' Bulletin and the setting up of a consultative committee of members not in practice had already been implemented, was at present considering the existing division of Institute members into Fellows and Associates which had remained unchanged since 1888. The English Institute had already dealt with this matter; and their colleagues in Scotland did not have to contend with the problem as they had only one class of member. It was almost certain, however, that the Institute's regulations on this subject would be altered, despite the difficulties involved, but the form which the changes would take had not yet been decided.

Stating that this had been the first year of the new Institute Examination, which is taken in five parts during apprenticeship and which replaces the old Intermediate and Final examinations, Mr Dawson said the Examination Committee had had to contend with many problems arising from the transition; but the Council was confident that the new system would produce a higher standard of knowledge and proficiency in future members.

In conclusion, Mr Dawson said that in less than two years' time the Institute would be celebrating its seventy-fifth anniversary. It was the youngest of the three Chartered Institutes in Great Britain and Ireland – and also the smallest. Nevertheless, the 'baby' had shown considerable development in recent years – there had been growth in activities and stature as well as in numbers and he was confident that this development would be maintained in future.

The toast of 'Our Guests' was proposed by Mr R. E. McClure, M.B.E., F.C.A., Vice-President of the Institute, and the Lord Mayor and Mr John O'Brien, President of the Dublin Chamber of Commerce, responded.

At the conclusion of the dinner, Mr G. E. Cameron, F.C.A., immediate Past-President of the Institute toasted his successor, and Mr Dawson replied.

HULL CHARTERED ACCOUNTANTS' ANNUAL DINNER

The annual dinner of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants was held on October 20th in the Guildhall, Hull, with the President, Mr R. G. Slack, M.A., F.C.A., in the chair.

Replying to the toast of 'The Institute of Chartered Accountants in England and Wales', Mr P. F. Granger, F.C.A., President of the Institute, said that these were days when human beings organized themselves into large groups, whether in industry, trades unions, professions and so on. It was an interesting but not an always satisfactory feature of modern life and probably arose through improved circumstances and possibly a fear of the unknown. The Institute with its membership of 35,000 was no exception and periodically they had to review their organization to see whether any improvements or alterations were desirable.

Small Practitioners

At the present time, said the President, they were engaged on a full-scale inquiry into the difficulties and problems that afflict the chartered accountant who was in practice in a small way. All the district societies had been asked to co-operate in this, and from the support he had already received he was confident that good would result. Provided members co-operate, said Mr Granger, a great deal of information would be obtained on such matters as staff salaries and recruitment fees, and so on which, when collated, should enable the Council to see what action could appropriately be taken.

The President expressed the hope that the practitioners, whether they were members of a district society or not, who felt that there was something to be done for them individually or for their colleagues would not fail to get into touch with the local district society or branch secretary.

He hoped, too, that members in the more remote parts of the country would see the advantages of getting together, and forming themselves into groups.

The President went on to say that the Institute had the problem - common to all progressive organizations - of 'ensuring that as many of the right-minded element' as possible were recruited, and, in emphasizing the value of training in a practising accountant's office, he quoted the views of two of the country's leading industrial organizations - Unilever and I.C.I. - as presented in evidence to the Parker Committee in support of the system of service under articles.

Mr Granger concluded with a tribute to Mr C. M. Strachan, whose retirement from the Council of the Institute was recently announced.

The Common Market

Sir John Braithwaite, chairman of the London Stock Exchange for ten years until 1959, who proposed the toast, said the choice of whether to enter or to stay out of the Common Market was probably the most momentous the nation had ever been called upon to make.

'I feel we have been lying on too soft a bed', he said. 'We will have to face much keener competition than we have yet had to stand up against.'

'Therefore, I feel it is of paramount importance that we should make our decision and face that situation in good time, rather than wait for it to be forced on us in that most unpleasant fashion which comes when you have to learn things the hard way'.

At this stage, said Sir John, it was difficult to form a definite opinion about whether or not to enter the Common Market. The problem was still only in the stage of exploration and negotiation and the terms on which it might be possible for Britain to adhere to the Treaty of Rome were not known. But he felt that even when the choice was finally clarified, the great mass of people would not be qualified to make a reasoned decision.

Industry and commerce might be able to judge their own problems and probable advantage or disadvantage, but even they were hardly able to balance the total national interest. Even when we knew all that it was possible to know and the time of decision arrived it would, for the majority, have to be an act of faith rather than anything else.

Mr R. G. Slack, M.A., F.C.A., President of the Society, proposing the toast 'Our Guests' and referring to the contentious Humber bridge, said he hoped it would never come. It was to cost £17 million and in his view a lot of that money would be better spent on improving the road between Goole and Bawtry.

There was also the question of a hovercraft which might be more efficient than a Humber bridge; but the real objection so far as he was concerned was that the bridge would go through his back garden. He thanked the guests, some of whom, he said, had come great distances from various parts of the country to add 'tinsel to the top table'.

Three Problems

Mr V. C. Ellison, M.C., T.D., chairman of the Cement Marketing Co Ltd, responding on behalf of the guests, said as far as industry was concerned three problems confronted the nation at the present time.

One problem was trade unions and the problems of their own members; it would be wrong for him to discuss it but it was a problem which they should bear in mind.

The second was the Common Market, and the third was the nationalized industries and the way they behaved and would behave, or he hoped would not behave if Britain went into the Common Market.

The Common Market was an absolute 'must', it was too big to be missed. He was quite certain it was going to be tough on a lot of people for a time, but he was equally convinced that the country could not afford to be out of it.

Industry, he said, was desperately short of qualified chartered accountants, it was a serious situation. If Britain was to improve its standard of living, the only way it could be done was by manufacture and sales, and this could only be achieved at a profit if there were first-class chartered accountants to say exactly what costs were, where 'they were going wrong' and what should be allowed.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Member's Address Wanted

The Secretary of the Institute would be glad to know the present address of the following member of the Institute. The town at which the member was last known is shown after his name.

Charles Everard Marr Johnson, F.C.A., London.

Members' Library

A new edition of the *Short List* of books in the library of the Institute, including books available on loan, has just been issued. Copies of the list are available to members, free and post free, from the librarian upon receipt of an addressed label.

PROFESSIONAL NOTICES

MESSRS COOPER BROTHERS & Co and COOPERS & LYBRAND announce that they have opened an office at Barclays Bank Building, Main Street, Mufulira, Northern Rhodesia.

MESSRS ERNEST FRANCIS & SON, Chartered Accountants, of Reading and Basingstoke, announce the retirement of their senior partner, Mr O. S. FRANCIS, M.C., F.C.A., J.P., after an association with the firm of over forty-seven years. The practice is being continued by the remaining partners with the addition of Mr J. S. SHORT, A.C.A., who is in charge of the branch office in Basingstoke, under the same firm name.

MESSRS SEYMOUR, TAYLOR & Co, Certified Accountants, of Station Close, Amersham Hill, High Wycombe, announce that Mr E. W. STANLEY, A.C.A., A.A.C.C.A., who has been with them for a number of years, has been admitted a partner as from October 6th, 1961. The firm name remains unchanged.

MESSRS WILD & SMITH, Accountants, of 64 Seymour Grove, Old Trafford, Manchester 16, announce that as from October 5th, 1961, Mr D. A. Wild, A.A.C.C.A., has retired from the firm and that the practice is being carried on at the same address by the partners of MESSRS H. D. MOORHOUSE & Co, namely, Mr J. B. DUNN, F.C.A., and MESSRS J. H. and J. E. MOORHOUSE, of Regal Cinema Buildings, 10A Oxford Road, Manchester 1.

Appointments

Mr E. A. Badman, F.C.A., a director of Walker, Sons & Co Ltd, is to become chairman of the company on October 31st.

Mr Thomas Hedley Bell, B.A., F.C.A., has been elected a director of English National Investment Co Ltd.

Mr Russell E. Benjamin, F.C.A., has been appointed financial director of Remploy Ltd.

Mr J. C. Brooman, F.C.A., and Mr E. A. King, A.C.A., have been appointed export sales director and financial director, respectively, of Black and Decker Ltd.

Mr H. S. Garnick, F.C.A., has been appointed an additional director of Lake & Elliot Ltd.

Mr F. W. Harper, F.C.A., has been appointed a director of The Straits Plantations Ltd.

Mr George Thompson, A.C.A., has been appointed secretary to Epsylon Industries Ltd and its subsidiary companies.

Mr J. M. Drummond, F.S.A.A., has been appointed financial adviser to the Electricity Council, as from December 1st.

OBITUARY

Rowland Albert Walter Charlton

The firm of Nevill, Hovey, Gardner & Co, Chartered Accountants, of London, have suffered a sad loss by the sudden death on October 14th, of Mr R. A. W. Charlton, who had been manager of their City office for many years. Mr Charlton joined their staff as an office boy in 1905 and except for a short interval after the First World War, when he left the profession to take the post of secretary of a client engineering company, he served the firm continuously for that long period. He never spared himself in the interests of his firm and their clients. His sound judgment, courtesy and sense of humour, earned for him the esteem and affection of many.

An active member of the Church of England, Mr Charlton was Churchwarden at St Gabriel's, Aldersbrook, Wanstead, for many years, until he moved to Frinton-on-Sea in the spring of 1960, to a bungalow built with retirement in mind. He was a Fellow of the Royal Horticultural Society and of the National Rose Society and died suddenly in his own garden—a fitting place for one who was a lifelong gardener.

REGISTRATION OF COMPANIES' FLOATING CHARGES IN SCOTLAND

The Board of Trade, in pursuance of the powers conferred upon them by the Companies Act, 1948, as amended by the Companies (Floating Charges) (Scotland) Act, 1961, have made the Companies (Fees) (Scotland) Regulations, 1961¹ prescribing the fees payable in respect of the registration with the Registrar of Companies, Edinburgh, of charges registrable in Scotland on the coming into force of the latter Act on October 27th, 1961. The fees are identical with those payable in respect of the registration of charges registrable in England, namely 10s if the charge does not exceed £200 and £1 if the charge exceeds that amount, with a fee of 1s for inspection by the public of the register of charges.

The Board of Trade have also made the Companies (Forms) (Amendment No. 2) Order, 1961² prescribing the forms to be used for the registration of charges in Scotland. Copies of the forms prescribed may be purchased from the Registrar of Companies, Exchequer Chambers, 102 George Street, Edinburgh 2.

¹ S.I. 1961, No. 1974, H.M.S.O. 3d net

² S.I. 1961, No. 1966, H.M.S.O. 1s net.

OXFORD CHARTERED ACCOUNTANTS' GROUP**Annual Dinner**

The fourth annual dinner of the Oxford Chartered Accountants' Group was held on October 6th, at University College, Oxford. Thirty-five members and their guests attended and as guests of the Group there were present: Dr A. L. Goodhart (*Master of University College*), Mr G. F. Ansell, F.C.A., (*Chairman of the London and District Society of Chartered Accountants*), Mr A. J. Bradley (*President of the Insurance Institute of Oxford*), Mr D. J. L. Cook, A.C.A., (*Secretary of the Reading Chartered Accountants' Group*), Mr T. W. Dwelly (*President of the Oxford Institute of Bankers*), Mr J. Kingham (*Secretary of the Oxford Chartered Accountant Students' Society*) and Mr S. A. J. Shergold (*President of the Oxford Chamber of Trade*).

Mr F. G. Harris, F.C.A., Chairman of the Group, welcomed the guests and introduced Mr G. F. Ansell who spoke shortly on Institute affairs. Mr J. Ll. Jones, B.E.M., B.A., A.S.A.A., proposed the health of the guests to which Dr Goodhart replied. As the dinner coincided with his retirement, the company then drank the health of Mr A. W. Chovil, F.C.A.

THE DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS**Residential Conference**

A residential conference, organized by The Dublin Society of Chartered Accountants, was held at the Grand Hotel, Tramore, Co. Waterford, on October 6th-8th. There was an attendance of forty-six members of the Dublin and Munster Societies of Chartered Accountants, representing both practice and industry.

Members were welcomed on Friday evening by Mr C. Garrett Walker, F.C.A., Chairman of the Dublin Society, and after dinner were entertained at a film show under the chairmanship of Mr R. P. J. Smyth, F.C.A., Vice-Chairman of the Dublin Society. Two films loaned by *The Accountant* were shown, illustrating the lives of chartered accountants in Canada, and C.P.A.s in the United States.

On Saturday morning two papers which had been circulated in advance to those attending the conference were briefly introduced by their authors. Mr A. D. Paton, C.A., of Glasgow, gave some short introductory comments on his paper, 'Evaluation of internal control of trading concerns - The use of questionnaires', and Mr Kenneth Boyce, A.C.A., of Belfast, followed with comments on his paper 'A consideration of internal control'. The members then separated into five study groups to discuss the papers.

After a break for 'other activities' on Saturday afternoon the group leaders reported back to a general meeting on Saturday evening. Having heard the group leaders' comments, the two speakers then had an

opportunity to reply and settle any questions. The general meetings on Saturday were under the chairmanship of Mr J. Love, F.C.A., a member of the Council.

The conference closed with votes of thanks to the speakers, the conference subcommittee and especially the convener, Mr R. Caldwell, A.C.A., and to the chairmen of the different sessions and the Chairman of the Dublin Society. This was the first residential conference of chartered accountants in the south of Ireland and set a fine example for future occasions.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON**Next Week's Meetings**

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m. at the Institute, Moorgate Place, EC2. Lecture on 'Why, when and how to mechanize' by Mr J. D. Green, F.C.A. Chairman: Mr W. K. Wells, B.A., F.C.A., Hon. Treasurer of the Students' Society.

Tuesday, 6 p.m. at the Institute: Joint debate with the Solicitors' Articled Clerks' Society on the motion 'Law has benefited man more than science'.

Wednesday: Demonstration of Burroughs Accounting Machines (limited number).

Thursday, 5.15 p.m. at the Institute: Introductory Course Lecture on 'Details of final accounts' by Mr F. R. Porter, F.C.A., A.C.W.A.

7.15 p.m. at Reading: Lecture on 'Taxation - opening and closing years and change of accounting date' by Mr B. Rose, B.E.M., F.C.A.

'The Taverners' monthly meeting.

Friday, 5.15 p.m. at the Institute: Introductory course lectures on 'The taxation system' by Mr F. R. Porter, F.C.A., A.C.W.A.; and 'The ownership and control of a business' by Mr P. W. Medd, Barrister-at-law.

6 p.m. at Ilford: Lecture on 'Tax losses' by Mr V. S. Hockley, B.COM., C.A., A.A.C.C.A.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS**New Publication**

The Institute of Cost and Works Accountants has issued a new publication containing question papers and suggested answers to the Institute's Intermediate and Final cost accountancy papers set at the December 1960 examinations.

This helpful publication, which was commissioned by the Council of the Institute, has been prepared by Mr J. L. Brown, A.C.W.A., and Mr L. W. J.owler, A.C.W.A., and is the first of a series on the Institute's examinations - work in preparing answers to the June 1961 costing papers is already well in hand. Copies of the present booklet may be obtained from Gee & Co (Publishers) Ltd, 151 Strand, London WC2 price 5s post free.

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REVALUATION OF ASSETS**WORKS, FACTORIES, PLANT & MACHINERY, Etc.**

**COST ACCOUNTANTS' REGIONAL
CONFERENCE**

A North Regional Cost Conference was held last Saturday by The Institute of Cost and Works Accountants at Leeds University. The conference was opened by Mr F. M. W. Hird, F.C.A., F.C.W.A., President of the Institute, and papers were presented on 'Future trends in employee remuneration', by Mr C. A. Herring, B.Sc.(ECON.), F.C.W.A., M.INST.T., and 'Research, development and other preproduction costs', by Mr L. N. Norton, F.C.W.A.

In his paper, Mr Herring said an employee has no certain way of measuring his standard of living, and often can only tell what others would pay him by contacting other employers. Predicting the likelihood of an era of greater economic planning, he said accountants and cost accountants could do much to help with economic changes by producing data which would assist managements to increase their efficiency by concentrating their efforts on forward plans rather than past results.

The accounting profession had applied much effort to various methods of accounting for and recording production costs, stated Mr Norton in his paper. Techniques of research and development varied according to the size of industry, but more especially because of the individualistic approach inherent in this type of work.

THE INSTITUTE OF INTERNAL AUDITORS**London Chapter**

The next meeting of the London Chapter of The Institute of Internal Auditors will take place on Wednesday, November 1st, at 12.30 p.m., at the Kingsley Hotel, Bloomsbury Way, London WC1, when Mr J. O. Davies, chief internal auditor, National Coal Board, will address the Chapter on 'Controls for management'. The secretary of the Chapter is Mr J. H. Protheroe, chief internal auditor, The British Oxygen Co Ltd, Bridgewater House, Cleveland Row, London SW1.

Yorkshire Chapter

The next meeting of the Yorkshire Chapter of the Institute of Internal Auditors will be held at the Guildford Hotel, Leeds, on Tuesday next, commencing at 7 p.m., when the speaker will be Mr R. G. Nicholson, manager, audit department, Shell Mex & B.P. Ltd, who will speak on 'Control procedures as they affect the audit'.

Non-members will be welcome and any inquiries regarding the Chapter's activities should be addressed to the honorary secretary, Mr A. E. Gardner, Divisional Internal Auditor, National Coal Board, Ellers Road, Bessacarr, Doncaster.

**INTERNATIONAL FISCAL ASSOCIATION
United Kingdom Branch**

The first meeting of the 1960-61 session of the United Kingdom Branch of the International Fiscal Association was held in London on October 3rd, when members heard a report on the proceedings of the Association's fifteenth congress held recently in Jerusalem (*The Accountant*, September 23rd issue). This was followed by a paper dealing with the 1962 congress to be held in Athens entitled 'Fiscal problems arising in relation to international investment companies or investment trusts', by Mr R. T. Esam, of Shell Petroleum Co Ltd.

Further meetings of the Branch have been arranged as follows:

November 8th. 'The harmonization of fiscal policy in the Common Market', by Dr Van Hoorn, Junr, of the International Bureau of Fiscal Documentation.

December 5th. Open discussion on topical tax case, to be opened by Professor G. S. A. Wheatcroft, Law Department, London School of Economics.

January 2nd, 1962. 'Some aspects of Anglo-American fiscal relations', by Mr D. F. A. Davidson, A.C.A.

January 19th. Informal dinner at Swedish Luncheon Club.

February 14th. 'Variations in United Kingdom comprehensive double taxation agreements from the general pattern', by Mr G. R. East, C.M.G., Inland Revenue.

March 13th. 'Tax incentive legislation in developing countries', by Mr P. J. Brennan.

April 18th. 'A critical examination of some leading United Kingdom tax cases', by Mr M. H. Bresch, LL.B.

May 8th. Annual general meeting.

The honorary secretary of the branch is Mr D. I. Main, F.C.A., 9 Basinghall Street, London EC2.

GOLF

A match played at Camberley Heath Golf Club recently between the Chartered Accountant Students' Society of London Golfing Society and the Scottish Apprentices in London Golf Club was halved 5½-5½.

The results (English names first) were as follows:

Foursomes

R. King and P. Adcock	lost to C. Murray and R. Hogg	(5 and 4)
A. Galbraith and T. Webb	lost to B. Macdonald and M. Prince	(5 and 4)
I. Richards and J. Lyttleton	beat D. Mackay and J. Keith	(5 and 3)
L. Nahon and S. Simmons	lost to J. Phillips and M. Cole	(2 holes)

Singles

R. King	beat R. Hogg	(6 and 4)
P. Adcock	lost to C. Murray	(2 and 1)
T. Webb	lost to M. Prince	(1 up)
A. Galbraith	beat B. Macdonald	(3 and 2)
I. Richards	beat D. Mackay	(2 and 1)
J. Lyttleton	beat J. Keith	(1 up)
L. Nahon	halved with M. Cole	

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EFFICIENCY IN THE OFFICE

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Mr R. D. Young, a managing director, Tube Investments Ltd, will take the chair. Speakers will include Mr W. F. Brackman, deputy financial controller, Gillette Industries Ltd, on 'The office and its oppor-

tunities for contribution to management'; and Mr L. A. Hill, head of methods and procedures, Shell International Petroleum Co Ltd, on 'Organization and methods as an aid to efficiency'. Further details are obtainable from the British Institute of Management, 80 Fetter Lane, London EC4.

INVESTMENT INFORMATION COURSE

A one-day course on investment analysis and ratio control is to be held in Manchester on November 8th and 9th when the speaker will be Dr James M. S. Risk, B.COM., Ph.D., C.A., F.C.W.A., F.C.I.S., F.B.I.M. Further information may be obtained from Management Courses Ltd, 18 Hanover Street, London W1.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Results of Examinations held in September 1961

PART V

Of the 147 candidates who sat Part V of the Institute's examination on September 5th, 6th, 7th and 8th, 1961, the undernoted fifty-four (36.73 per cent) candidates passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

Passed with distinction

Morrison, W. C. C. (Thomson McLintock & Co), Glasgow

Adam, (Miss) C. M. S. (Reid & Mair), Glasgow
Adamson, R. A. (Mann, Judd, Gordon & Co), Glasgow

Beaumont, J. M. (Kidston, Goff & Harvey), Glasgow
Begg, J. C. B. (William D. Anderson & Co), Edinburgh
Boyd, D. T. (Peat, Marwick, Mitchell & Co), Glasgow
Burford, D. M. P. (Chalmers, Wade & Co), London
Burnett, R. S. (Stuart & Stuart), Dundee

Carruthers, T. (Wallace & Somerville), Edinburgh
Charles, P. I. (Hamilton-Eddy & Walker), London
Cole, M. D. (Thomson McLintock & Co), London
Crawford, C. G. (Wm. Home Cook & Co), Edinburgh
Cross, G. N. (McClelland, Moores & Co), London

Dawson, N. G. (Touche, Ross, Bailey & Smart), London
Docherty, G. C. (Thomson McLintock & Co), Glasgow

Ellis, F. (E. W. Ellis & Co), London
Ellis, G. C. (Clunie & Scott), Edinburgh

Falconer, B. W. (Boyack, Whitelaw & Aitchison), Edinburgh
Ford, W. G. (Henderson & Loggie), Dundee
Forgie, D. C. (Cooper Brothers & Co), Glasgow

Gair, M. McN. (Wilson, Stirling & Co), Glasgow
Gallacher, E. F. (Girdwood, Allison & Logan), Glasgow

Hastie, W. M. (Thomson McLintock & Co), Glasgow
Henderson, J. M. (Robertson, Davies & Co), Glasgow
Holterman, (Miss) M. I. (John E. Watson & Co), Glasgow
Howie, R. Y. (J. Douglas Henderson & Co), Edinburgh
Kerry, T. S. (Chalmers, Wade & Co), London
Kesson, D. R. (Wilson, Stirling & Co), Glasgow

MacDougall, H. (Peacock & Henry), Glasgow
Mackay, R. A. (J. W. & R. N. Oswald), Edinburgh
McAndrew, N. (Peat, Marwick, Mitchell & Co), London
McKie, H. (Breachin, Cole-Hamilton & Co), Glasgow
McLachlan, (Miss) E. A. (McFarlane, Hutton & Patrick), Glasgow

Mein, S. C. (Wylie & Hutton), Edinburgh
Mercer, W. (McClelland, Moores & Co), Glasgow
Mitchell, D. T. (Thomas Kelly & Co), Glasgow
Morrison, W. C. C. (Thomson McLintock & Co), Glasgow

Nunneley, C. K. R. (Brown, Fleming & Murray), London
Palmer, E. (Galbraith, Dunlop & Co), Glasgow
Philip, I. G. (Martin Currie & Scott), Edinburgh
Porter, R. M. (Thomson McLintock & Co), Glasgow

Qureshi, S. (French & Cowan), Glasgow
Sakol, D. R. (Kerr, MacLeod & Macfarlan), Glasgow
Shields, T. E. M. (Grahams, Rintoul & Co), Glasgow

Slater, J. (Norman J. Bird & Co), Dundee
Smith, I. D. (McClelland, Moores & Co), London
Smith, L. (Jas. A. Jeffrey & Co), Aberdeen
Steel, (Miss) M. M. (Peacock & Henry), Glasgow
Stewart, W. A. (Thomson McLintock & Co), London
Stuart, K. (McClelland, Moores & Co), Glasgow

Thomson, L. B. (Breachin, Cole-Hamilton & Co), Glasgow
Thomson, R. H. (Thomson McLintock & Co), London
Vinestock, D. D. (W. A. Wighton & Crawford), Edinburgh
Waters, P. G. (Reid & Mair), Glasgow
Young, R. B. (Don & Stewart), Dundee

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Trustee Investments: an Important Decision

IN a leading article on the Trustee Investments Act, 1961, which appeared in these columns on August 12th last, we expressed the view that although Section 15 expressly saves the Court's power to confer wider powers of investment, in fact, the Court would be disinclined to enlarge the statutory powers. It seemed clear that the judges would, in exercising their discretion, be guided by the view of the Legislature as to what was ordinarily the proper way of investing trust moneys and would not depart from it unless special circumstances existed. Indeed, ROXBURGH, J., in *Re Royal Naval and Royal Marine Children's Homes, Portsmouth, Lloyds Bank Ltd v. Attorney-General* ([1959] 2 All E.R. 716 note), when enlarging the range of investment of funds under the charitable trusts jurisdiction, had thought it right, in view of the pending legislation on trustee investments, to make an interim order only, limited to take effect until the law regulating the investment of trust moneys generally should have been amended, and this decision was a clear indication of the current of judicial opinion as to the manner in which the Court's discretionary power in this field should in the future be exercised. Now, *Re Porritt's Will Trusts* (*The Times*, October 26th, 1961) and *Re Cooper's Settlement, Cooper v. Cooper* ([1961] 3 All E.R. 636) leave no doubt of the Court's reluctance to give trustees powers of investment wider than those in the new Act.

The testator in *Re Porritt's Will Trusts* settled his residuary estate and empowered his trustees to retain investments existing at his death, but apart from this they could invest only in investments for the time being authorized by law as trustee securities, and investments in bearer form were expressly forbidden. The trustees made application to the Court under the Variation of Trusts Act, 1958, for approval of an arrangement to extend their powers of investment. At that time the value of the trust fund was some £145,000, of which £130,000 was accounted for by stock in a company called Porritt & Spencer Ltd which the trustees had retained under the express power in the will.

Basing their case on the practice established under the Act of 1958, the trustees sought power to invest any moneys for the time being forming part of the testator's residuary estate in (*inter alia*) any investments of whatever nature which at the date of purchase were, or upon allotment would be, dealt in and quoted upon any recognized stock exchange in the United Kingdom or upon the New York, Montreal, Amsterdam, Zürich

or Johannesburg Stock Exchanges, subject to certain provisos. PENNYCUICK, J., said that, had the summons been brought on for hearing before the passing of the Act of 1961, it was probable, having regard to the then prevailing practice of the Court, that the application would have been granted, with certain modifications.

In fact, however, it was necessary for his lordship to consider the application in the light of the Act of 1961. He referred to the preservation of the Court's discretionary power by Section 15, but said that, in exercising that power, the Court should have regard to the policy of the Legislature as embodied in the Act. It followed that the Court should not, in the absence of special circumstances, enlarge the range of investments beyond that prescribed by the Act. His lordship compared the position today with that during the period between the passing of the Act of 1958 and the passing of the Act of 1961, when the powers of investment under the Trustee Act, 1925, were manifestly out of date and the Court would, where special circumstances existed, exercise its discretion in the light thereof.

PENNYCUICK, J., was not satisfied that any special circumstances existed in the case before him. Counsel for the trustees and counsel for the beneficiaries had both relied for a special circumstance on the fact that by far the greater part of the fund was in the stock of a single company, and that it would be embarrassing for the trustees, in considering whether it was expedient to realize all or part of that stock, to have no middle course between retaining it on the one hand and selling it and investing the proceeds within the range of investments specified by the Act of 1961. His lordship said that it seemed to him that, so far from being a special circumstance, that was a position which must regularly arise where there was a power to retain unauthorized investments and that the alternative courses open to trustees in such a case were unambiguously contemplated by the provision of the Act; that was to say that they might retain in whole or in part but, in so far as they sold, they must invest in accordance with the Act. Accordingly, he must dismiss the summons.

A similar point arose for decision in *Re Cooper's Settlement*, in that again it was sought to enlarge the powers of the trustees to invest a

fund which they might, however, retain in its existing state of investment (namely, for the most part, in an investment trust company). BUCKLEY J., refused to sanction the proposal. We intend to deal more fully with this case in next week's issue.

The Act of 1961 has been criticized on the grounds that its provisions are complicated and that they make the duties of trustees more onerous; though in fact, as we suggested in our earlier article on the Act, those provisions rather emphasize already existing duties of trustees than lay fresh burdens upon them. The object of the Act is to ensure that trust funds are invested in such a way that both tenants for life and remaindermen derive the greatest possible benefit from them, and it may be doubted whether surer means could be devised.

Reference to the share price index in recent months reveals that equities of even the best public companies are capable of considerable capital depreciation, albeit dividends may not be greatly reduced. On the other hand, the inclusion amongst the 'narrower-range' investments authorized by the Act of 1961 of (within certain limits) the debentures of United Kingdom companies supplies a long-felt want by providing a form of investment which gives a high degree of security of both capital and income. It is respectfully submitted that PENNYCUICK, J., was absolutely right in the view which he took that it was neither here nor there that the testator in *Re Porritt's Will Trusts* had authorized the retention of shares outside the trustee investment range, once the trustees had made up their minds to sell those shares, or some of them. Indeed, it is not easy to see what circumstances could be so special as to warrant enlargement of the field of investment beyond the new statutory range, save that on occasion a case might be made for the purchase of land, or for investing in unit trust schemes a greater part of the trust fund than that which the Act permits to be so invested. It is, after all, always open to settlors and testators to give their trustees powers wider than those conferred by statute, and, if they do not do so, it is reasonable to suppose that they wish the statutory power to stand. It is clear that for the future, trustees will seldom be justified in seeking from the Court an extension of their investment powers.

Surtax Directions: Who is a 'Member'?

THAT welter of complicated 'deeming' provisions now collected in Chapter III of Part IX of the Income Tax Act, 1952, has once more been the subject of litigation¹, in which it has been judicially criticized. In the words

LORD JUSTICE DANCKWERTS:

'So long as one is concerned with legislation which deals with realities, it is possible to reason in a rational manner, but when one comes to provisions which give artificial and unreal meanings to words which otherwise have an intelligible application, it becomes almost impossible to apply logic to the provisions, and this case seems to be an outstanding example of that situation.'²

The precise decision has an appearance of simplicity which is, however, deceptive. It turned on the meaning of Section 255 (2) of the Income Tax Act, 1952, which is so short that it can be set out in full:

'(2) In this Chapter, "member", in relation to any company, shall include any person having a share or interest in the capital or profits or income of the company.'

What of a person who, although not a shareholder, and therefore not a 'member' in the ordinary sense, is a holder of debenture stock giving a charge on the company's assets and containing a provision for redemption by instalments? In the present case the company was financed almost entirely by such debentures. Did the owner of such debentures have an interest in the company's capital, profits or income? The Special Commissioners said he had not. MR JUSTICE DANCKWERTS said he had. The Court of Appeal decided that he had not.

The surtax direction legislation is confined to companies controlled by not more than five 'persons'. When a direction is made on such a company its income can be 'apportioned' among its 'members', defined as above. Section 248 (1) requires the Special Commissioners to make the apportionment 'in accordance with the respective interests of the members', so that members with no 'interest' are automatically excluded from apportionment, although they are the five persons or fewer who control the company.

So far we have been speaking of trading companies. Special and more elaborate rules apply to investment companies. One of them empowers the Special Commissioners 'if it seems proper to them to do so' to attribute to each member, for Section 248 purposes, 'an interest corresponding to his interest in the assets of the company available for distribution among the members in the event of a winding-up'. It was perhaps this provision which induced the Latilla family to adopt the avoidance device which met with failure in the House of Lords in *F.P.H. Finance Trust Ltd v. C.I.R.* (No. 2) (26 A.T.C. 1). There, the ordinary shares were held by a public company, the preference shares by members of the family. The preference shares carried a maximum dividend of 5 per cent while the company continued, but the right to the surplus assets on winding-up. The House of Lords held that the Special Commissioners had rightly apportioned the whole income to the preference shareholders relying only on the general words of what is now Section 248 (1).

LORD RUSSELL OF KILLOWEN, giving the decision of the House, said that the Special Commissioners should determine who were the persons who (i) fell within the definition of 'member' and (ii) in view of all their interests in the company, were the persons 'really interested in the income in question'. The Special Commissioners should be guided in this by the preamble to what is now Section 245, which sets out the object of the legislation.

The vague dichotomy between the persons who (not exceeding five in number) control the company, and the 'members' to whom income is apportioned, is further blurred by Section 255 (2), in particular paragraph (c). It directs that a company is to be

'deemed to be under the control of not more than five persons. . . .

(c) if:

- (i) on the assumption that the company is a company to which the said Section 245 applies; or
- (ii) on the assumption that the company and any other company or companies are

¹ *C.I.R. v. R. Woolf & Co (Rubber) Ltd* (39 A.T.C. 302; 40 A.T.C. 137).

² 39 A.T.C. at page 312.

companies to which the said Section 245 applies;

more than half the income of the company (including any income which has been apportioned to it, or could on either of those assumptions be apportioned to it, for the purposes of this chapter) could be apportioned for those purposes among not more than five persons'.

Now it is clear that nothing could be apportioned to any person on this assumption unless he were a 'member'. It follows that where the Special Commissioners cannot otherwise show that the company is controlled by not more than five persons, and have to rely on Section 256 (2) (c), the five or fewer controllers must be 'members'. And in the case of a trading company that means they must fall within the definition in Section 255 (2). It is on this rock that the attempt to make directions in *C.I.R. v. R. Woolf & Co (Rubber) Ltd* has foundered.

The company was formed in March 1951 to take over the business of an old-established family company. It issued some shares to the wife of one of the shareholders of the old company and the remainder to the trustees of sixteen different family trusts, in such manner that no five shareholders held more than 49 per cent. In October 1951 it bought all the issued share capital of the old company for £600,000; satisfied by the issue of £200,000 first mortgage debenture stock and £400,000 second mortgage debenture stock. The next day it bought the undertaking of the old company for £600,000, leaving the purchase price as an unsecured debt.

The trust deed of the first mortgage stock provided for 6 per cent interest and the payment to the trustees of £13,125 per annum towards redemption, which was to be completed by December 1967, at a premium of £5 per cent. The second mortgage stock was subject to similar provisions. It was admitted that the reconstruction in this form was intended to provide for estate duty arising out of the death in February 1950 of one of the then principal shareholders of the old company.

The Special Commissioners made Section 245 directions on the new company for each of the three years ended December 31st, 1954. On appeal against these directions, the Inland Revenue argued that

(a) the new company was a family company

'the stockholders in which had an interest in the capital of the company';

(b) they were therefore 'members' within Section 255 (2);

(c) they had interests sufficient to warrant the apportionment to them of substantially the whole of the company's statutory income

(d) the new company should be deemed to be controlled by not more than five persons within Section 256 (2);

(e) in any event Section 245 applied.

In accepting the contentions of the Inland Revenue, MR JUSTICE DANCKWERTS held himself bound by the speech of LORD RUSSELL which we have referred to above. However, in the *F.P.H.* case it was incontrovertible that the company was controlled by not more than five persons and that the persons to whom the apportionment was made were members. The Court of Appeal has unanimously reversed the decision of MR JUSTICE DANCKWERTS. They held that the context precluded them from construing the words 'capital or profits or income' as extending to 'assets'. LORD JUSTICE DONOVAN said he was influenced by the fact that in the case of investment companies the definition of 'member' is expressly extended by Section 258 to include loan creditor.

The Inland Revenue admitted that if the contentions were correct then ever since 1900 every judgment creditor of a company, every vendor to a company having a lien for the purchase price, and even every employee, was a 'member' within Section 255 (2).

Two of the judgments in the Court of Appeal indicated that if a debenture conferred a right to share in profits as such, then the holder would be a 'member' within Section 255 (2). We would say with respect that in contracts of this kind the word 'profits' is often used in a special sense not necessarily the same sense as in Section 255 (2). On ordinary commercial principles, the sums paid to a lender for the use of his money are expenses which have to be deducted before one can say whether there is any profit at all. The distinction was emphasized in *British Sugar Manufacturers Ltd v. Harris* (16 A.T.C. 421) in relation to a recurring payment made for services.

Controlling Administration Costs

A STUDY IN BUDGETARY PROCEDURE

by N. H. GREEN, F.C.A.

(The author of this article is responsible for the development of accounting procedures in the operating companies of the Nestlé Group)

SYSTEMS of budgetary control in factories have been described in many textbooks on this and allied subjects. A number of well-known works combine the study of budgetary control with that of costing. The object of this article is to show how the principles of control by budgetary procedures in the field of selling and administration costs have been applied within the writer's organization.

The problem of cost control is one which preoccupies management in most growing businesses and the larger the organization the bigger the problem. In most businesses the expenses which are incurred at head offices are analysed under the classical cost headings such as 'Salaries', 'Rent and rates', 'Stationery', 'Lighting and heating', 'Travelling expenses', 'Entertaining expenses', etc. Most industrial accountants have been through some harrowing hours when the managing director gets the six-monthly analysis of general expenses and starts an inquest because the expenses are up 15 per cent on last year. The accountants usually spend days trying to make some further analysis of the figures and departmental heads avoid the managing director until some more pressing problem distracts his attention. When one gets to the stage of spending somewhere in the region of £1 million on salaries with all the other expenses in proportion, the problem of cost control becomes really acute. It was in this kind of situation that we began to examine the possibilities of using budgetary procedures to control head office costs.

The utility of budgets in an administrative organization is not quite so obvious as in a factory, where the budgets for variable costs are usually expressed in terms of cost per unit of output, and are controlled according to actual output. In production budgeting, output volume provides a yardstick by which performance can be judged. In an administrative organization there is usually no physical yardstick by which to assess the results. (There may be a few exceptions to this rule, such as in a punched-card department where costs may be related to number of

invoices, etc.) Mainly for this reason companies which have developed a close control of factory costs have practically no effective control over expenditure at head office, although this represents a very important sum of money. We decided that in some Nestlé companies we would attempt to break down the administrative and selling costs by departments and institute a system of budgets and comparisons of budgeted expenditure with actual costs. In this article reference will be made in particular to one large organization in which the expenses controlled through the budgetary system were not far short of £2 million, incurred partly at head office and partly at sales offices and warehouses throughout the country. This figure does not include advertising expenditure or the cost of sales promotions which have for many years been controlled through annual budgets. It should not be thought that the system is applicable only in businesses of similar size, in fact we have also successfully installed budgetary procedures in a company which is very much smaller, using slightly different techniques.

The first task is to define the 'cost centres' and the expenses which will be controlled. When this has been done the plan of accounts must be changed in order to produce actual figures of expenditure by cost centre. Until this has been done and one can indicate figures of actual expenditure for a period of not less than six months, it is not much use asking departmental heads to prepare budgets. The next few paragraphs will be devoted to an examination of some of the problems which will arise in this preparative work and in the subsequent budgetary procedures.

Selection of Cost Centres

Cost centres should normally coincide with the departmental organization of the business. If responsibilities are clearly defined and there is an up-to-date organization plan showing the separation of the head office staff into divisions, departments, sections, etc., then the task of fixing cost centres is very much simplified. If not, some preliminary work will have to be done, clearing

up any 'grey areas' where the division of responsibilities between executives is not clear. This is one of the 'by-products' of budgetary control which cannot fail to benefit the business.

It will be necessary to decide upon the level at which cost centres are to be created – divisional, departmental or sectional? Much will depend upon the size of the organization and the principle to follow is that the head of the cost centre should be the man who is directly in charge and is taking day-to-day decisions which influence costs. Take the example of an accounting division which comprises seven departments and more than 200 employees, divided as follows:

	<i>Employees</i>
General accounts department ..	25
Punched-card department ..	100
Trade debtors department ..	40
Costing department	15
Budget department	7
Accounts payable department ..	10
Internal audit department ..	6
	<hr/>
	203
	<hr/>

Should there be one cost centre for the whole accounting division under the supervision of the chief accountant, or seven cost centres each with a departmental executive responsible for his costs? Obviously, the second alternative will mean that the number of cost centres is going to be high, with a corresponding increase in the analysis work which must be carried out by the accountants. Nevertheless, we felt when we made our plans, and we have not changed our point of view, that only the second alternative would induce cost consciousness where we wanted it. The chief accountant is not himself directly supervising the activities of the 203 employees in the division and furthermore he cannot take any action on total figures for the expenditure of the whole division. For effective action he must be provided with details by department. Therefore, it was preferable to start by creating, in this case, seven cost centres and making the executive in charge of each department responsible for his budget.

Naturally, the divisional executives examine the budgets for all the departments in their division and supervise the activities of their subordinates. Another 'by-product' of budgetary control is often an improved definition and delegation of responsibilities within divisions. The need to classify all expenditure (including salaries) in one or another departmental budgets often leads to the elimination of some unsatisfactory situations

which have lingered on because nobody wants to take a difficult decision. Sales offices and warehouses geographically separated from head office conveniently constitute cost centres.

When the final list of cost centres had been established, each centre was given a number which appears on all documents connected with that centre. (A two-digit code should be adequate for most organizations and it can be arranged so that the first digit indicates the division and the second digit identifies the department.)

Budget Expenditure

The next step was to decide what expenditure would be charged to cost centres. We found that for this purpose expenditure fell into four main groups:

- Expenditure which can *easily* be identified to the cost centre, e.g. salaries and travelling expenses.
- Expenditure which *can* be identified to cost centres at the price of some extra analysis work, e.g. telephone calls, office stationery, etc.
- Expenditure which cannot be directly identified to cost centres but which can be allocated on a reasonable and acceptable basis, e.g. the cost of accommodation at head office allocated on the basis of office area occupied.
- General expenditure which has no connection with individual cost centres, e.g. audit fees, bank charges, donations to charities, trade subscriptions, etc.

There is a basic decision to be taken here. Should cost centres be charged only with expenditure for which they are directly responsible (groups (a) and (b) above), or is it desirable to produce a 'total cost' by cost centre in which all general expenses (mainly those in groups (d)) are allocated on some arbitrary basis such as in proportion to salaries? We are convinced that a 'total cost' by cost centre has very little significance and the value of the budgets is much greater if they include only expenditure over which the executive responsible has some measure of control.

If the budget includes allocations of general expenses, the sense of responsibility for costs on the part of the departmental executives is diminished. If for good reasons it is nevertheless desired to allocate general expenses to cost centres, they should be shown separately and clearly labelled. Usually the first part of the budget statement will include only 'direct' or 'controllable' items and the second part consists of general expenses allocated on some basis which should be understood by all executives. Another

possibility, which was adopted in the case under review, is to charge only 'controllable' expenses to departmental cost centres and to create one or two additional 'general expenses' cost centres where all expenses not chargeable to departmental centres are assembled. The chief accountant or some other senior administrative executive is then in a position to keep an eye on the expenses which are charged to such cost centres.

The list of expense headings which was finally agreed upon is as follows:

- o Salaries and wages
- 1 Welfare expenses
- 2 Travelling and entertaining
- 3 Motor-car expenses
- 4 Stationery
- 5 Cost of accommodation
- 5 Repairs and hire of furniture, office machines, etc.
- 7 Postages
- 3 Telephones and telegrams
- 9 Special items and sundries

It will be observed that only ten standard expense headings are in use, thus keeping the classification code as short as possible. Posting media is codified with a three-figure number of which the first two digits represent the cost centre and the last digit the expense classification. In respect of Class 9 expenditure, some extra details of all larger items are recorded on the budget ledger card to enable an analysis to be made without reference back to original documents.

In the following paragraphs our experience in charging various items of expenditure to departmental cost centres is described.

Salaries and Wages

Usually some departmental classification of salaries and wages existed already and it was only necessary to make some adjustments to correspond to the new cost centres. All salary documents bear the number of the cost centre concerned.

Welfare Expenses

Welfare expense includes National Insurance contributions, pension contributions and any other benefits, either in cash or kind, which are received by the employees. Provided that the calculation of salaries and wages is organized on a departmental basis, there is usually no difficulty in the analysis of welfare expenses too.

Travelling and Entertaining Expenses

The basis of the book-keeping entry in respect of

expenditure on travel and entertainment is usually a personal claim form for the reimbursement of expenses which should carry the cost centre number. The same remark applies to motor-car expenses.

Stationery

Stationery and office materials is an expense item which never fails to increase, perhaps because the control of a vast number of small items is difficult indeed. At first we considered that the task of analysing this expenditure would be too onerous, but an examination of the existing arrangements encouraged us to try. Each department was in the habit of requisitioning on a central stationery store for its requirements for a certain period. A small stock was kept in each department for everyday use.

We drew up a list of standard prices for all stationery and asked every cost centre to value their requisition at standard prices before they were authorized by the head of the cost centre. It has already been found that the presentation of an 'invoice' for approval, rather than a list of articles, has had a salutary effect on some departmental executives who were inclined to order large quantities of stationery without a thought for the cost of it. Stationery requisitions are collected by a junior clerk who sorts them into cost number order and summarizes them on an adding machine slip which is then the posting media for the debit to the appropriate cost centre in the budget ledger.

Cost of Accommodation

All expenditure on the head office building, including rent, lighting and heating, caretaker, etc., is debited to an appropriate cost centre and the total of this centre is charged out to departmental centres in proportion to square yards of office space occupied. This is the only case in which the expenses of one cost centre are allocated to the departmental centres, but we decided that the latter should be charged for the space they occupy. From one point of view the total amount of the expenditure is beyond the control of departmental executives, but they do have some measure of control over the space occupied and we considered that they should be aware of the high cost of this space. The expenses of the cost centre 'head office building' should be budgeted and controlled by the office manager or whichever executive is responsible.

• In the case of sales offices and warehouses in the provinces (mostly rented) there is no difficulty

in charging all the expenses relating to the premises occupied.

Postages

We were unable to find any rational way of calculating how much is spent on postage by head office departments and so all head office expenditure under this heading is charged to the general expenses cost centre. Sales offices and warehouses only show this item separately in their budgets.

Telephones and Telegrams

The cost of trunk calls had been the subject of several 'blitz' actions by management and there was already a recording system in operation. With very little extra work we were able to arrange for a monthly summary of expenditure by cost centre. All the rest of the telephone bill, mainly rentals and local calls, is split according to the number of telephones in each office. At first sight this appears rather arbitrary in respect of local calls, but in fact the number of telephones in an office is roughly related to the volume of calls made.

Special Items and Sundries

Important items are enumerated separately in budgets and comparisons of actual expenditure, and small items of lesser importance are shown in one sundries item.

Changes in Book-keeping Routines

The accountant who previously analysed his expenses according to their nature is now required to produce an analysis by cost centre which will probably involve several hundred additional accounts. In the case under consideration there were over seventy cost centres and, as mentioned previously, the expenses for each centre were grouped under ten headings, so that rather more than 700 accounts were required in the budget ledger. The number of entries was somewhere between four and five thousand a month. In this particular instance, punched-card equipment was not available and it was decided to purchase a machine with full alphabetical keyboard (similar to machines already in use for the general book-keeping). Entries in the budget ledger were made from a wide variety of originating documents such as invoices, payment authorizations, salaries summaries, petty cash payments, travelling expense claims, etc. Arrangements were made for the department which authorized payment to mark the cost centre and expense classi-

fication codes. Since the department authorizing payment was usually the one to which the expense would be debited, there were not many cases of items being debited to the wrong cost centre.

In another company the analysis of expenditure has been facilitated by means of punched cards and probably this is the most economical method wherever there is a punched-card installation available.

Preparation of the Budgets

How often should budgets be prepared and for what period? The expenses which we are dealing with generally fall in the category of 'Fixed overhead expenses' which do not change very rapidly. Monthly and weekly budgets are frequently used for controlling factory operations which are very much influenced by production volume, which itself may change at very short notice. But fixed overheads do not change rapidly and are usually (but not always) divided fairly evenly over the whole financial year. Therefore, the most convenient budgetary period is the financial year and budgets usually will be prepared a month or two prior to the beginning of the year.

It is most important that the budgets should be established by the departmental executives themselves in order to give them a feeling of participation in the budgeting processes. A budget which has been established by the budget section of the accounting department and imposed upon the departmental executive will never be as acceptable as the one which he has prepared himself. However, the accountants must give some guidance, probably in the form of a statement of actual expenses incurred for a preceding period. In our case figures for the period January/August are given on the form on which the next year's budget is to be entered. This form is issued to each cost centre in duplicate, one copy to be returned duly completed to the budget section of the general accounting department. Any supplementary information which assists an appreciation of the figures may be shown on the form. For instance, the number of staff in the cost centre will always be helpful and another item might be the area of office space occupied. We also indicate the number of company-owned motor vehicles used by the cost centre personnel.

When the budgets have been completed they are returned to the budget section who then submit them to management for approval, with a summary which gives a synoptic view of the total position. It is most important that the preparation of budgets should not become just one more

accounting routine; it must be the occasion for reviewing the expenditure of the department in relation to the work done, and management can do much to encourage a constructive attitude. Top management should require cost centre executives to explain the basis on which their budgets have been prepared and no doubt special attention will be paid to substantial increases over the current

year and preceding year figures. This review of the departmental budgets gives management full information on increases in costs and gives the opportunity to take remedial action *before the expenditure has been incurred*. How much more efficacious this is compared with the old-fashioned comparison of expenses 'by nature' after the event!

BUDGET 196 ...

COMPARISON OF ACTUAL EXPENDITURE

Cost Centre.....

EXPENSES	ANNUAL BUDGET	1/3 BUDGET	ACTUAL EXPENDITURE 1st January to	VARIANCES	
				RED: ADVERSE BLACK: FAVOURABLE	%
o Salaries and Wages					
1 Welfare Expenses					
2 Travelling and Entertaining					
3 Motor-car Expenses					
4 Stationery					
Cost of Accommodation					
Repairs and Hire of Furniture and Machinery					
Postages					
Telephones and Telegrams					
9 Special Items and Sundries					
TOTAL COST					
CAPITAL EXPENDITURE					
PERSONNEL { Special List					
Male					
Female					
Part-time					
MOTOR VEHICLES					

REMARKS

Date.....

.....Departmental Head

Visa.....

Comparisons of Actual Expenditure

The remarks in the preceding paragraph concerning the frequency and the period of budgets apply equally to the periodic comparisons of actual expenditure with the budget. Monthly comparisons are an expensive luxury which may give rise to some misleading variances if expenditure is incurred irregularly. We operate a system of accounts covering four-monthly periods, preparing cumulative profit statements for January/April, January/August and January/December, and our budget comparisons are prepared for these periods. Although a few variances arise in respect of seasonal expenditure a period of four months gives a better average expenditure than one month, and some control during the year is desirable in order to permit corrective action where possible. Illustrated on page 597 is a specimen of the form which is in use for these comparisons.

Actual figures must be produced as rapidly as possible after the end of each period and forwarded to each cost centre executive for comment. All substantial variances are referred to top management.

The Budget Committee

Reference has been made several times to the role of top management in the budgeting process and many accountants will be only too well aware how difficult it is to persuade managing directors to spend a little time on this kind of work. Our solution to this problem is to delegate the work of examining individual budgets to a budget committee which is composed of senior executives generally at the level of divisional manager. The budget committee examines both the original budgets and the comparisons of actual expenditure and carries out an investigation into any matters which appear to merit further study. (For this purpose it may be advisable to put on the committee a man such as the internal auditor who is accustomed to investigating the activities of his colleagues.) The budget committee finally reports to the managing director all matters which they consider sufficiently important to require his attention – the extent of the reporting will vary very much from one company to another according to the degree of delegation generally exercised by the managing director.

Introducing the Budgetary System

It is most important to inform all departmental executives very fully on the objectives and

mechanism of budgetary control. Choose the head of the budget section very carefully; he should be an accountant who already knows the business well, is endowed with common sense, and can be relied upon to use tact and diplomacy in his relations with executives. Budgets must be taken seriously, but the budget accountant must be able to recognize which variances are sufficiently important to warrant further investigation and which are a collection of insignificant items which can be ignored.

The task of informing departmental executives is best achieved by compiling a 'Guide to budgetary control' which should be properly printed and circulated to all cost centres. The budgetary procedures should be described in detail and specimens of all the forms which are to be used should be shown. Since the budget forms must necessarily be limited in narrative, the 'guide' should clearly state what kind of expenses are to be included under each heading. A list of the cost centres should also be included, and should be brought up to date regularly.

Prerequisites for Successful Budgetary System

Before concluding this article it may be useful to summarize the conditions which we consider to be essential to the successful introduction of a budgetary system:

- (1) Participation and support of top management
- (2) An unequivocal organization structure in which the responsibilities of each unit are clearly defined.
- (3) A plan of accounts which enables actual expenditure to be produced rapidly and accurately.
- (4) Participation of departmental executives in the preparation of budgets.
- (5) Information at departmental level on the plans of top management for the budget period.

The achievement of each of these conditions will in itself benefit the business considerably, without considering the advantages of the budgetary procedures themselves.

Conclusion

A budgetary control system such as described cannot be obtained for nothing. According to the size of the business some slight increase in accounting personnel is inevitable. In the case described in this article the annual cost was approximately as follows:

	£
1 Senior clerk	1,250
1 Junior clerk	900
1 Machine operator	800
Depreciation of book-keeping machine	300
	<hr/>
	£3,250

It should be remembered that the expenditure which is controlled by the budgetary system is not far short of £2 million.

What are we getting for our money? The budgetary system is still comparatively new, but we have already observed a surprising increase in cost-consciousness among the departmental

executives. We are confident that the extra cost will be amply covered by the savings which will result from the increasing attention to costs. Also, the budgetary control of fixed overhead expenses is part of an integral plan for profitability accounting which will ensure a wider and more accurate knowledge of the cost structure of our business at all levels of management. Any such plan must segregate fixed overhead expenses from variable product costs and must devise means of controlling both classes of expenditure. We started out with some hesitations about the extra work involved, but now we are satisfied that the end justifies the means.

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

GERMANY

Regulating the Auditing Profession

THE West German Federal Parliament has recently enacted legislation to regulate the practice of auditing in Germany. The objects of this legislation are to ensure that one description is used throughout the country for practitioners of auditing and that entry into the profession shall be by way of admission to one professional association.

As the professions of *vereidigte Buchprüfer* and *Wirtschaftsprüfer* fulfil the same functions and are subject broadly to the same rights and duties, all practitioners in this field will take the former designation, though the qualification of *vereidigte Buchprüfer* ceases to be awarded as a diploma. All auditors who practise at present with this qualification are permitted to take an oral examination for the *Wirtschaftsprüfer* diploma, providing they can show at least five years' experience as auditors.

The existing *Wirtschaftsprüfer* will therefore be referred to as *vereidigte Buchprüfer* in the same way that a chartered accountant in this country signs himself '... Auditor'. An exception to this rule is that the designation *vereidigte Bücherrevisor* will continue in use for a limited period in the States of the former United States zone. The abuse of these titles is punishable by imprisonment and fine, as is also the appointment of unqualified persons to act as auditors. The title *Wirtschaftsreuhander* may not be used in future.

The official body for the profession is the *Wirtschaftsprüferkammer* to which all auditors must belong. This association fulfils functions analogous to those of an institute of chartered accountants, and is to keep a register of members. The functions of the organization are modelled on the *Hauptstelle für*

das Wirtschaftlicher Prüfungs- und Treuhandwesen set up in the former British Zone, which has proved its efficacy over the years.

Access to the auditing profession accordingly will in future be solely through the examinations for the qualification of *Wirtschaftsprüfer*. Candidates must have a suitable college education and at least six years' experience of business, of which at least four years must have been spent in auditing.

It is noteworthy that the title *Wirtschaftsberater* (business consultant) is now illegal in Germany. Not only is this because the title is capable of confusion with that of *Wirtschaftsprüfer*, but the majority of business consultants are members of one profession or another, and therefore do not require any supplementary description of this kind.

FEDERATION OF RHODESIA AND NYASALAND

Economic Outlook for 1962

'PARADOX' is a word that can be easily overworked today in Africa. But it has a good deal of relevance when considering the economic future of the Federation. This comes out in the Economic Report 1961 (C. Fed. 180, price 5s) which has just been published. The Federation should have had an outstandingly good year in 1961. The key mining industry had a record level of output measured by volume and value. Results in agriculture were mixed owing to drought, but they might have been worse. Exports were higher on the year by 10 per cent. Electricity consumption was higher. There was a deficit on invisible current account, but taken by and large it should have been a good year. Political

unrest throughout the continent and inside the Federation reduced investment from abroad and valuable impetus was lost.

This coming year the outlook for agriculture, including cattle, is good. Mining could have a satisfactory year. But political unrest remains the great stumbling block. Its consequence is likely to be continued low investment and hence a slower rate of economic advance than might be achieved.

The Federation is thus likely to be one more case in Africa where political trouble will keep the level of investment at less than the optimum rate. If the constitutional problems could be solved more capital might flow in and — a point not prominent in the report — so might more technical and professional personnel.

AUSTRALIA

Second Australian Accountants' Congress

THE challenge of the 1960s' will be the theme of the Second Australian Accountants' Congress organized by The Institute of Chartered Accountants in Australia to be held in Sydney next year, from May 7th–10th.

A comprehensive programme of technical sessions is being arranged and these, together with the social events, will take place in the Chevron-Hilton Hotel — the congress headquarters. Members of the Institute and their ladies from throughout Australia will be attending, and judging by the success of the first congress held in Melbourne in 1957, they can look forward to an interesting four days in Sydney.

Australian Institute's Annual Report

THE annual report of the General Council of The Institute of Chartered Accountants in Australia for the year ended June 30th, 1961, records that membership of the Institute increased by 113 over the preceding year, bringing the total number of members to 4,248. Of these, 2,299 are situated in New South Wales, 386 in Queensland, 236 in South Australia, 89 in Tasmania, 997 in Victoria and 241 in Western Australia.

Disappointment is expressed at the results obtained by candidates in the Institute's Final examinations. Of the 1,960 candidates who sat, a total of only 938 were successful. It is evident, the report states, that many do not conscientiously cover the syllabus.

A committee appointed by the Institute to make a detailed survey of the present examination system is expected to present an interim report this month. A closer liaison with all the Australian universities is envisaged and in the meantime the initial step has been taken by raising the educational standard of new candidates for the Institute's examinations to university entrance level, commencing in March 1963.

CANADA

New Projects of the Canadian Institute

IN May, the Canadian Institute of Chartered Accountants, whose membership has now reached the 10,000 mark, appointed its first Director of Continuing Education who has already prepared two 'back-to-the-classroom' courses for members entitled 'Tax techniques and practices' and 'Management accounting'. The courses are now under consideration by the provincial Institutes.

For the first time, non-practising members have this year been included in the Institute's Accounting and Auditing Research Committee so that the industrial point of view may be represented in research work. The committee has in hand a series of accounting research studies, considerably longer than bulletins, on particular accounting and auditing problems, but they will not concentrate on actual, accepted accounting practice.

Canadian Tax Foundation Surveys

A CANADIAN Tax Foundation Survey, 'The costs of tax compliance', based on the records of 129 companies, finds that they paid an average of \$49,000 a year to settle their own taxes and an average of \$16,000 a year to act as collection agents for governments. They had to employ an average of eleven or twelve extra people to handle the work. It is suggested that wide variances in the tax work costs of companies, even in the same industry, may be due to lack of a uniform cost accounting approach to tax work.

The Foundation has announced completion of arrangements with Queen's University for a comprehensive study on the 'Effects of taxation on Canadian economic growth'. It will be the broadest study of its kind yet undertaken in Canada and the largest ever sponsored by the Foundation.

UNITED STATES

Objectives of Accounting Education

TWO objectives in education for the accountancy profession are referred to in a leading article in a recent issue of *The Journal of Accountancy*. Students may be educated on the one hand to be accountants, on the other rather to become accountants and grow professionally by postgraduate study and experience. Emphasis has thus far been on the former, but development such as the rapidly-evolving mathematical aids to decision-making will vitally affect the accounting practice of the next twenty years. Consequently, concludes the article, there is much to be said for combining both objectives, for the profession must, in these times of change, concern itself with long-range objectives as well as those of the immediate present.

Weekly Notes

Queen's Speech

MANY of the matters referred to in the Queen's speech on Tuesday had been expected for some time. The Government is to 'make every effort' to bring negotiations for entry into the European Economic Community to a successful conclusion. References to Berlin and defence included powers to retain some national servicemen for a further six months and to recall others who have already served their call-up period.

Legislation is to be prepared to raise the limit of liability of the Export Credits Guarantee Department. Proposals are to be presented to improve the machinery for administering criminal justice and the Bill on roads which was dropped last session will be re-introduced. There were general remarks about raising productivity and increasing economic progress.

Other Bills to be introduced include the orderly development of privately owned pipelines, proposals for the fishing industry, improved workmen's compensation, further development of the hospitals and the establishment of national training councils for health visitors and social workers.

There is no mention of a short-term capital gains tax or any legislation to control the soliciting of visits by finance companies and other institutions.

Irish Institute's New Council Member

At a recent meeting of the Council of The Institute of Chartered Accountants in Ireland, Mr William Hugh O'Donnell, B.COMM., F.C.A., of Limerick, was co-opted to membership of the Council to fill the vacancy arising from the previously announced resignation of Mr G. F. Klingner, F.C.A.

Mr O'Donnell was educated at St Munchin's College, Limerick, and at University College, Dublin, and served his articles with the late E. T. McCarron, F.C.A., of Reynolds, McCarron & Co, Chartered Accountants, Dublin. He took first place in the Final examination held in May 1941 and was admitted to Institute membership later that year. Mr O'Donnell, who was elected to fellowship in 1947, has been in practice in Limerick since 1942. He was Chairman of the Munster Society of Chartered Accountants during the years 1955-56 and 1956-57.

Estate Duty and Gifts on Marriage

THE exemption from estate duty of *inter vivos* gifts made 'in consideration of marriage' is not confined to gifts which are settled on the persons who are within the marriage consideration, i.e. the spouses and issue. This is the effect of the judgment of the Court of Appeal on Monday in *Rennell v. C.I.R.* (*The Times*,

October 30th). In March 1956, the late Mr Augustine Courtauld settled property worth £450,000 in consideration of the marriage of his daughter Perina to Mr Christopher Jeremy King Fordham. The settlement was a very wide discretionary one; at the entire discretion of the trustees it included not only the bride and groom and their issue but also the issue of the settlor generally and the issue of spouses of the settlor's issue. The Crown argued that only the ordinary type of marriage settlement familiar in 1910 when Section 59 (2) of the Finance (1909-10) Act, 1910, was passed qualified for the exemption. However, the Court of Appeal refused to read such a limitation into the plain words of the subsection.

Estate Duty: Aggregation and Settled Property

SECTION 33 (1) of the Finance Act, 1954, provides broadly speaking that where certain kinds of settled property passes on the death, it is not to be aggregated with the remainder of the property passing if that remainder does not exceed £10,000. As a result of this provision, it sometimes pays to say that a particular item is settled property, sometimes not. Thus if there is a very large amount of settled property attracting a high rate of duty, and only a very small free estate, then it would pay to have more property treated as *not* settled, up to the £10,000 limit.

This was the position in *Dunn v. C.I.R.* (40 A.T.C. 89) in relation to two advances amounting to £2,626 made to the children of the life-tenant within five years before his death. The trustees did not deny that this sum attracted duty under Section 43 of the Finance Act, 1940, on account of the release of the life interest in it. But they did deny that it was settled property so as to attract the same rate of duty as the funds which had remained settled. In Section 43 cases it had been the view of the Inland Revenue that such advances remained 'settled' even though the settlement itself had come to an end before the death. Mr Justice Wilberforce rejected this view, holding that there was nothing in either section to produce such a result, even where the settlement continued.

The Inland Revenue have now announced that as a concession they will treat such property as settled or not settled whichever is in the taxpayer's interest.

Potential Balancing Charge a 'Contingent Liability'

WHERE shares in a company have to be valued for estate duty purposes on the 'assets basis' under Section 55 of the Finance Act, 1940, subsection (2) provides for 'the like allowance for liabilities of the company as is provided by Section 50 (1)' with certain modifications. Section 50 (1) provides for an allowance.

For all liabilities of the company (computed as regards liabilities which have not matured at the date of the death, by reference to the value thereof

at that date, and, as regards contingent liabilities, by reference to such estimation as appears to the Commissioners to be reasonable) . . .

Sir Arthur Monro Sutherland, Bt., died in 1953 having a controlling interest in a shipping company. The company's assets included five ships, valued at more than £1 million, which had cost £847,907 and on which the 'unallowed expenditure' was £290,749. The ships realized £1,070,505 in 1954 and thereby attracted a balancing charge under which the income tax and profits tax payable was some £270,000. The executors claimed a deduction under Section 55 (2) in respect of the balancing charge. Lord Justice Danckwerts¹ held that there was no contingent liability at the date of the death, and his refusal of the deduction was confirmed by the Court of Appeal. However, the House of Lords, by a majority of three to two, has now reversed this decision (*The Financial Times*, October 27th). The House referred the case back to the High Court to determine the proper deduction to be made in respect of the potential balancing charge as at the date of death. Lord Hodson, dissenting, said that the company could have avoided the charge by not selling. As it was not bound to sell, there was no contingent liability.

NAAFI Catering

A RECOMMENDATION to simplify the structure at the top of the NAAFI (Navy, Army and Air Force Institutes) has been made by the committee under the chairmanship of Mr John Corbett, F.C.A. The Secretary for War, Mr Profumo, made this announcement in the House of Commons last week. The Service departments have broadly accepted the recommendations of the committee.

The Corbett committee found that NAAFI is meeting the essential needs of the Services and that its basic concept as a specialist conveyor to the Services is right and should continue. The committee has recommended that NAAFI should retain its present position in Service establishments and bases. The committee found that there was a great demand for the Institutes to offer a wider range of goods in line with the rising standard of living of servicemen which in turn reflects the general increase in the standard of living.

The committee recommended that the NAAFI Council, comprising representatives of the three Service departments, should be reduced from twelve to seven or eight members of a standing to give rapid decisions on policy issues. Furthermore this Council, while retaining its authority, should leave the board of management the greatest possible freedom in the day-to-day running of the corporation. The management should be strengthened by additional experts. The committee also expressed its views on the maintenance, furnishing and decorating of canteens and drew attention to the importance of the views of wives.

¹ *Re Sutherland* (38 A.T.C. 212).

Building Ships Abroad

THE White Paper *Shipbuilding Orders Placed Abroad by British Shipowners*¹, was published last week. The terms of reference of Messrs Peat Marwick, Mitchell & Co, who conducted the inquiry on behalf of the Minister of Transport, were strictly limited. Because of this, the inquiry has elicited very little extra information beyond what was already available in general terms and unless the findings are read with care they can give a somewhat unfair picture of the United Kingdom shipbuilding industry.

The inquiry took the form of a questionnaire to obtain from shipowners information about each ship ordered abroad with special reference to tenders invited, prices quoted, delivery dates, credit terms, reasons for ordering abroad and any relevant additional information. Questionnaires went out to forty-three companies in respect of ninety-one ships. In the end the main information was obtained from twenty-two companies in respect of thirty-four ships with an aggregate tonnage of 198,825, covering orders placed since January 1st, 1959. Of these thirty-four ships the reasons for placing orders abroad could be summarized as follows:

	Number of ships
Price	15
Price and delivery date	10
Price and credit facilities	6
Guaranteed delivery date	2
United Kingdom builders unwilling to install a foreign-built engine ..	1
	34

The terms of reference did not require the accountants to draw conclusions, but they considered it pertinent to say that since their inquiries were confined to British ships ordered abroad 'it was inevitable that prices or delivery dates quoted by foreign yards for these ships would be more favourable than those quoted by British yards'. Indeed, as stated above, the White Paper is necessarily a record of foreign successes and not a general picture of the shipbuilding industry.

Money Incentives

THE adequacy of bonus payments as an incentive to workers in industry has been under criticism for some time. There has been increasingly tendency, particularly marked in the United States to go over to time, as opposed to piece, rates and enter into fairly long-term contracts with organizations on wages and fringe benefits.

The limited efficacy of bonus schemes has been brought out in a booklet called *Money for Effort* by Mr Tom Lupton, which is No. 11 in the *Problems of Progress in Industry* series put out by the Department of Scientific and Industrial Research.² Mr Lupton

¹ H.M.S.O. 1s.

² Price 1s 9d.

goes into the question of the theory of incentives and their practical application. Most of what he has to say is a summary of recent research work. This, of course, is not a criticism of the author since the whole of this series is intended to set out briefly and simply the results of new research on industrial problems.

Reflecting the current trend of thinking on incentives, Mr Lupton is mildly sceptical about the efficacy of rate setting and time study as a guide to accurate bonus fixing. He does not, however, challenge the general efficacy of work study nor the valuable part which time study, within certain limits, can play in rising output and providing a basis for calculated bonuses.

The main conclusions of the pamphlet are that financial incentive schemes are of limited effectiveness and that the measure of their effectiveness cannot be answered in terms of sweeping theories; they are part of a wider question. Finally, he thinks that research into the factors for management-worker co-operation and the effects of various systems of wage payment must take into account general and local social structure, the roles which workers and managers play outside the factory, and the relations of mutual dependence between life inside and life outside factories.

Inefficiency in Industry

A 'SENTIMENTAL softness' towards inefficiency characterizes the United Kingdom's political attitude to industry, said Mr S. P. Chambers last week when speaking at the sixteenth national conference of the British Institute of Management at Torquay. The chairman of Imperial Chemical Industries Ltd, he is in a strong position to issue a warning about the kind of competition likely to be encountered by British industry if the United Kingdom enters the European Common Market.

He cited such examples of a policy condoning inefficiency as keeping uneconomic mines open and making industrialists go to areas which were unsuitable from a cost, hence efficiency, point of view, but lenient if the idea of taking work to the worker was acceptable. These examples happen to concern employment policy, but he could have given other examples of national industrial policy failing to prepare the country quickly enough for the March winds of competition likely to blow off the Continent if the United Kingdom goes into the E.C.M., including the continuance of monopolistic practices and the slow progress being made towards a national wages policy.

His emphasis on the need for mobility of labour is timely, however. Two decades of a full employment policy have helped labour in the United Kingdom to forget that mobility in some degree is necessary and that the job cannot always be taken to the worker. The present membership of E.C.M. has not only a high rate of investment but also the framework (even if it has not been used very much as yet) of a scheme

for making labour internationally mobile among the 'six'. If British industry is over-supplied with managers who are slow to use modern technical and management methods and workers who will not move to areas of better employment, they may soon have to compete directly (not only through the prices of the products they help to make) with those who do.

More About Ombudsman

THE appointment of a permanent official with the same kind of powers as the Danish Ombudsman is recommended in a report called *The Citizen and Administration*¹ prepared by Justice, the British section of the International Commission of Jurists. He should be appointed to investigate complaints of maladministration against Government departments. He would be called the Parliamentary Commissioner and his status would be similar to that of the comptroller and auditor-general.

In the first instance he would receive complaints only through members of both Houses of Parliament. Later he might receive them direct. He would have access to departmental files but not to internal minutes. The Commissioner's independence from the executive is considered to be essential and this would be achieved on the model of the office of the comptroller and auditor-general. Thus he would be answerable to Parliament and removable only on the address of both Houses. This idea goes some way towards the point made in our issue of March 18th, when the question of an Ombudsman was briefly discussed and our emphasis was laid on the need to give such an appointment some sort of historical pedigree.

While the main object of the Commissioner would be to defend those unable (for example on grounds of expense) to do so themselves against administrative tyranny (wilful or otherwise), he would also inevitably guard the Civil Service against unjustifiable attacks. The report was prepared by a committee under the direction of Sir John Whyatt, formerly Chief Justice of Singapore, and there is a preface by Lord Shawcross, Chairman of Justice.

Industrial Assurance Report

THE annual report for 1960 of the Industrial Assurance Commissioner published last Monday, deals with industrial assurance business transacted by fourteen companies and ninety-one collecting societies during the year.²

The number of new industrial assurance policies effected during 1960 was 5,806,000 compared with 6,078,000 in 1959. Sums assured by new business reached a new record figure of £401,500,000. The average sum assured by each new policy was £69 3s 0d – an increase on the 1959 figure of £6 14s.

The report includes a table based on information

¹ Published by Stevens & Sons, 10s 6d.

² *Report of the Industrial Assurance Commissioner for the year 1960*. H.M.S.O. 3s.

supplied voluntarily by the companies and largest societies analysing the figures of new business for 1960, which show that policies containing an endowment element accounted for 66.6 per cent of the total number of new assurances, 76.9 per cent of the total sums assured and 80.4 per cent of the premiums payable. The average whole life assurance was £49 2s 0d and the average endowment assurance was £82 16s 0d.

There were 118,098,000 industrial assurance policies in force at the end of the year – 700,000 less than at the end of the previous year. A total of 1,806,000 paying policies were converted into free

policies, of which 755,000 were for the full sums assured, 2,469,000 policies (including 883,000 free policies) were surrendered for cash, and 1,001,000 policies were forfeited without grant of a free policy or cash surrender value. Premium income for the year again increased from £186,044,000 to £195,465,000. Claims on death amounted to £42,839,000 and claims on maturity to £49,722,000.

At the end of the year the industrial assurance funds of the companies had reached a figure of £1,163 million, and total assets of collecting societies (whose industrial assurance funds amounted to £263 million) amounted to £342 million.

This is My Life . . .

by An Industrious Accountant

CHAPTER 96

AS one of a band of reasonably hard-working accountants in industry I feel that by and large the services that we render to our employers are not inconsiderable. We are expert on financial principles; we co-operate whole-heartedly with our colleagues; we modestly feel we do our level best. At least, so we hope. It is true that sometimes as we reach our homes in the cold bleak evenings, our fingers worn to the bone with our labours, we feel inadequately remunerated by comparison with others whom we know, but such a feeling is common to everyone. It is accepted as quite natural. What I'm wondering now is what those others think of us.

It started when I had a visitor recently. My old friend Dan was returning from abroad after a distinguished administrative career; he had reorganized the whole taxation system of some Asian principality; he had fought off dacoits and terrorists; he had been publicly thanked and decorated. He was dropping in at 10.30 a.m. for a chat while on his way to London to take up two important directorships; it was really a big moment.

I pushed all my papers into a drawer at 10.25; the tax computation to be amended, the draft minutes, the cost report with the minus where a plus should have appeared – they would just have to wait. Then Dan arrived, still as handsome, debonair, forceful as ever, and we settled down to talk of old times; true, his hair-line had receded and his waistline hadn't, but it was good to have old Dan home again.

He took in my room with an experienced glance. 'Ah, the clear-desk school,' he chaffed me. 'You know how to pass the work down the line.' My efficient private secretary had organized a good-looking tea-tray, with a white cloth and chocolate biscuits, but

he refused it courteously. 'The tannic acid ruins your stomach, you know. Perhaps you could manage some coffee instead . . . though they've no idea of making real coffee over here, of course.' He was always adroit in one-upmanship.

When we went out later to look over the premises, he was amused to find my secretary bent over a daily paper, as she was collating the City column cuttings. 'Soft life, eh?' he chuckled and it proved futile to try to explain the situation. In our big costing office the air was electric with intense concentration; that minus figure in their report had put the boys on their mettle and they were keen to arrive at a quick interpretation for the afternoon's management conference; not a head turned to look at us.

Dan looked at them approvingly. 'You've certainly whipped these chaps into shape,' he remarked. 'The old iron-hand stuff; keep them hard at it. I see that you don't even let them smoke.' He was referring to a 'Smoking Strictly Prohibited' sign on a nearby desk; actually it had an involved history, having been put there as a joke when the chief cost accountant tried for the umpteenth time to cut down on his forty cigarettes a day, but Dan wouldn't listen for a moment. 'Go on, you old slave-driver,' he said.

On our way to the canteen subsequently, Prinny joined us and asked if I was arranging to attend a certain week-end management accounting conference. In fact I wasn't; I hadn't time. Nevertheless, it was not unexpected to hear Dan commenting sardonically about 'pleasant little holiday-breaks, these jaunts'.

Prinny poured massive libations of sherry to welcome the returned exile, with the remark that he only drank it on his accountant's advice. He fancies this little joke since I showed him the impressive, and in fact award-winning, annual accounts of our wine-merchants. Dan approved our choice graciously, though he whispered an obscure reference to inflated expense accounts. However, he was clearly enjoying himself and congratulated me warmly on my carefree and enjoyable business life.

Little he knew. Staying back late that night to catch up with my interrupted work, I realized how easy it is to misunderstand – and be misunderstood.

The notes on page [607] are to be read as part of this Account

at an annual cost to our Group of £180,000. It is expected that profits for the year 1961 will be lower than the record results of the 53-week year 1960, although higher than in any previous year.'

One leading Press commentator concluded: 'This is a clear case where the publication of half-year figures would help. Verbal description of complicated trading trends can never be a substitute.'

How right he is!

More Needed

Mecca Ltd - restaurants, dance halls, hotels, etc. - announced an 8 per cent interim dividend, a short time ago, on the Ordinary and 'A' Ordinary capital for the year 1961. With the notice of the interim dividend was added the information that in the first thirty-six weeks of the year, the net trading profit of the group, as shown by unaudited figures, had increased by £179,000 compared with the corresponding period of last year.

There is a natural hesitation to belittle anything born of good intention and one must accept any interim notice of the trend of profits as well intended. There is no escaping, however, from the fact that if this interim notice is going to be much use, it is at least necessary to have available the 1960 report and accounts, and even then, the 1960 profit figure is hardly much use as a comparison against the first thirty-six weeks' profit of 1961. £179,000 is encouraging but what exactly does it mean?

Recently in this column there was illustrated an American-style profit statement for the month of August, and for eight months to August. Profits for the two periods were compared with the corresponding periods of the previous year and the profits were then expressed in the simple index of 'earnings per share of Common stock'. Something similar is surely within the accounting capacity of companies in Britain.

Dunlop Example

To show what can be done, here are the main points from the Dunlop Rubber Company's statement for the first half of 1961. The group figures, excluding Dunlop Japan, no longer a subsidiary, are as follows:

	Jan.-June 1961 £ million	Jan.-June 1960 £ million	Year 1960 £ million
Sales to Customers	133	136	275
Net Balance from Trading (before depreciation, interest and taxation)	11.88	11.18	23.23
Net Profit (after all charges except taxation)	6.94	6.75	13.91
Net Profit (after taxation)	3.24	3.29	6.66
Net Profit attributable to Dunlop Rubber Co Ltd	2.70	2.81	5.62

ASSOCIATED TELEVISION LIMITED AND SUBSIDIARY COMPANIES Consolidated Balance Sheet as at 30th April 1961

	1960 £	1961 £	1960 £	1961 £
ISSUED SHARE CAPITAL AND STOCK OF ASSOCIATED TELEVISION LIMITED				
500,000	500,000	500,000	500,000	500,000
505,779	505,779	505,779	505,779	505,779
115,225	115,225	115,225	115,225	115,225
1,121,004	1,121,004	1,121,004	1,121,004	1,121,004
5,771,004	5,771,004	5,771,004	5,771,004	5,771,004
2,103,000	2,103,000	2,103,000	2,103,000	2,103,000
40,858	40,858	40,858	40,858	40,858
1,225,642	1,225,642	1,225,642	1,225,642	1,225,642
2,774,952	2,774,952	2,774,952	2,774,952	2,774,952
854,438	854,438	854,438	854,438	854,438
4,805,032	4,805,032	4,805,032	4,805,032	4,805,032
12,719,894	12,719,894	12,719,894	12,719,894	12,719,894
REVENUE RESERVES				
Investment Reserve				
Unappropriated Profit:				
Parent Company	1,859,608	1,859,608	1,859,608	1,859,608
Subsidiary Companies	199,573	199,573	199,573	199,573
2,059,181	2,059,181	2,059,181	2,059,181	2,059,181
6,709,181	6,709,181	6,709,181	6,709,181	6,709,181
2,350,810	2,350,810	2,350,810	2,350,810	2,350,810
62,530	62,530	62,530	62,530	62,530
1,674,841	1,674,841	1,674,841	1,674,841	1,674,841
59,363	59,363	59,363	59,363	59,363
2,158,528	2,158,528	2,158,528	2,158,528	2,158,528
24,096	24,096	24,096	24,096	24,096
33,125	33,125	33,125	33,125	33,125
3,320,879	3,320,879	3,320,879	3,320,879	3,320,879
7,270,832	7,270,832	7,270,832	7,270,832	7,270,832
862,909	862,909	862,909	862,909	862,909
12,719,894	12,719,894	12,719,894	12,719,894	12,719,894
FIXED ASSETS				
Land and Buildings	1,244,472	1,244,472	1,244,472	1,244,472
Plant, Equipment and Motor Vehicles	476,349	476,349	476,349	476,349
1,720,821	1,720,821	1,720,821	1,720,821	1,720,821
TRADE INVESTMENTS				
Shares at cost or valuation:				
Quoted (market value £1,511,412 - 1960 £1,285,520)	872,811	872,811	872,811	872,811
Unquoted	223,290	223,290	223,290	223,290
1,096,101	1,096,101	1,096,101	1,096,101	1,096,101
500,000	500,000	500,000	500,000	500,000
1,269,231	1,269,231	1,269,231	1,269,231	1,269,231
2,865,332	2,865,332	2,865,332	2,865,332	2,865,332
CURRENT ASSETS				
Film Rights, Licences and Scripts, at cost less sales and amounts written off	1,674,841	1,674,841	1,674,841	1,674,841
Sundry Stocks	59,363	59,363	59,363	59,363
Debtors and Payments in Advance	2,158,528	2,158,528	2,158,528	2,158,528
Quoted Investments at cost	24,096	24,096	24,096	24,096
(market value £24,372)	33,125	33,125	33,125	33,125
Tax Reserve Certificates	3,320,879	3,320,879	3,320,879	3,320,879
Bank Balances, Deposits and Cash in Hand	7,270,832	7,270,832	7,270,832	7,270,832
862,909	862,909	862,909	862,909	862,909
12,719,894	12,719,894	12,719,894	12,719,894	12,719,894
GOODWILL				
arising on consolidation				
Deduct:				
Investment Reserve				
9,509,649	9,509,649	9,509,649	9,509,649	9,509,649
1,911,999	1,911,999	1,911,999	1,911,999	1,911,999
500,000	500,000	500,000	500,000	500,000
1,411,999	1,411,999	1,411,999	1,411,999	1,411,999
12,719,894	12,719,894	12,719,894	12,719,894	12,719,894

Sales were 'virtually maintained - despite the reduced demand for original equipment. Export sales were a record, being 16 per cent higher'.

Highlighting the profit trend, upwards 'before tax' but a 'slightly lower' net profit attributable to the parent company, the report points out that the margin of profit, before tax, in relation to turnover was 5.2 per cent compared with 5 per cent. Forecasting is difficult under present conditions, it is stated, but estimates indicate that the second half of 1961 should be broadly the same as July-December 1960.

And the statement concludes with a reference to reducing disparity between interim and final dividends, the interim being 6d against 4d per unit but not implying a higher total distribution for the year.

Read it Again

A NOTE regarding taxation on the balance sheets of James Laing, Son & Co (M/c) Ltd says that 'The aggregate amounts of the current liabilities and

the reserves for future taxation represent the amounts which are required, as far as can be ascertained at present, to cover the taxation which will be payable in respect of the profits earned to date. The increases in these aggregate amounts represent the excesses of the amounts charged in the profit and loss statements over the net taxes paid and suffered during the year'.

This is one of those explanations, seemingly simple at first reading, that leave one with an urge to go back and read it again. The seeming simplicity, one fears, may have been deceptive. Better read it again and make sure.

It is so easy, of course, to misjudge these things. What one man takes in his stride, another finds a wordy maze. So on the basis that two minds are better than one, the statement was passed to a colleague who is normally very clear in his compositions, for comment. 'I think I've got it,' he said after a pause - and then he read it again.

CITY NOTES

INTEREST rates have dominated the City to a considerable degree, with particular discussion on whether Bank rate on its downward path should lead or follow the discount and gilt-edged markets. In some quarters there is some criticism of the apparent official view that a reduction in Bank rate must carry some element of surprise, if only in the fact that a reduction comes a week or more after its general forecast or a week or so after a reduction has been broadly discounted.

But whatever the niceties of Bank rate changes, the facts of the high rate which has ruled since July is that 'hot money' has flowed into London to an extent which has already permitted repayment of part of July's heavy International Monetary Fund borrowings. The repayment - or repurchase to be exact - has been translated into terms of Treasury policy to keep the currency situation as fluid as possible.

Interest rates are still high enough to continue to attract funds to London in considerable force, but such a movement is not the basis on which strengthened reserves and a strengthened external economy can be built.

The basis must be a reliable balance of payments surplus earned the hard way. Trade figures have yet to show any determined movement in the right direction, although movement there is. There is little doubt that high interest rates have made exporting more difficult. The shipping industry has been quick to retort to that effect following the report to the Government on the loss of shipping orders to overseas competitors.

Just as the Government refuses to yield to pressure for tax alleviation on export business, it also refuses to differentiate between internal and external credit needs.

RATES AND PRICES

Closing prices, Wednesday, November 1st, 1961

Tax Reserve Certificates: interest rate (12.8.61) $3\frac{1}{2}\%$

Bank Rate

Aug. 14, 1958	$4\frac{1}{2}\%$	Oct. 27, 1960	$5\frac{1}{2}\%$
Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	$6\frac{1}{2}\%$

Treasury Bills

Aug. 25	£6 14s	0.12d%	Sept. 29	£6 11s	0.48d%
Sept. 1	£6 14s	0.50d%	Oct. 6	£6 2s	5.80d%
Sept. 8	£6 12s	10.81d%	Oct. 13	£6 0s	0.28d%
Sept. 15	£6 11s	10.99d%	Oct. 20	£5 18s	5.35d%
Sept. 22	£6 10s	6.51d%	Oct. 27	£5 14s	6.57d%

Money Rates

Day to day	$4\frac{1}{2}-6\%$	Bank Bills	
7 days	$5-5\frac{1}{2}\%$	2 months	$5\frac{1}{8}-6\%$
Fine Trade Bills		3 months	$5\frac{1}{8}-6\%$
3 months	$7\frac{1}{4}-8\frac{1}{2}\%$	4 months	$5\frac{1}{8}-6\%$
4 months	$7\frac{1}{4}-8\frac{1}{2}\%$	6 months	$5\frac{1}{8}-6\frac{1}{8}\%$
6 months	$7\frac{1}{4}-8\frac{1}{2}\%$		

Foreign Exchanges

New York	2.81 $\frac{5}{16}-\frac{3}{8}$	Frankfurt	11.25 $\frac{1}{2}-1$
Montreal	2.91 $\frac{1}{16}-\frac{1}{8}$	Milan	174 $\frac{1}{2}-1$
Amsterdam	10.12 $\frac{1}{2}-1$	Oslo	20.03 $\frac{1}{2}-1$
Brussels	140.06 $\frac{1}{2}-1$	Paris	13.83 $\frac{1}{2}-1$
Copenhagen	19.37 $\frac{1}{2}-1$	Zürich	12.16 $\frac{1}{2}-1$

Gilt-edged

Consols 4%	60 $\frac{1}{2}$	Funding 3% 59-69	82 $\frac{1}{2}$
Consols 2 $\frac{1}{2}$ %	39 $\frac{1}{2}$	Savings 3% 60-70	80 $\frac{1}{2}$
Conversion 5 $\frac{1}{2}$ % 1974	94 $\frac{1}{2}$	Savings 3% 65-75	72 $\frac{1}{2}$
Conversion 5% 1971	93 $\frac{1}{2}$	Savings 2 $\frac{1}{2}$ % 64-67	85
Conversion 3 $\frac{1}{2}$ % 1969	86 $\frac{1}{2}$	Treasury 5 $\frac{1}{2}$ % 2008-12	83 $\frac{1}{2}$
Conversion 3 $\frac{1}{2}$ %	52 $\frac{1}{2}$	Treasury 5% 86-89	82
Exchequer 5 $\frac{1}{2}$ % 1966	98 $\frac{1}{2}$	Treasury 3 $\frac{1}{2}$ % 77-80	71 $\frac{1}{2}$
Funding 5 $\frac{1}{2}$ % 82-84	92 $\frac{1}{2}$	Treasury 3 $\frac{1}{2}$ % 79-81	69 $\frac{1}{2}$
Funding 4% 60-90	89 $\frac{1}{2}$	Treasury 2 $\frac{1}{2}$ %	38 $\frac{1}{2}$
Funding 3 $\frac{1}{2}$ % 99-04	57 $\frac{1}{2}$	Victory 4%	94 $\frac{1}{2}$
Funding 3% 66-68	84 $\frac{1}{2}$	War Loan 3 $\frac{1}{2}$ %	52 $\frac{1}{8}$ xd

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Erddig Motors Ltd v. McGregor

In the High Court of Justice (Chancery Division)
October 18th, 1961

(Before Mr Justice CROSS)

Income tax - Controlling shareholder of company purchased shares in another company - Price and other items paid by cheque - Contemporaneous payment of cash to seller of shares - Whether cash represented undisclosed receipts of purchaser's company.

The appellant company, carrying on business as a garage proprietor and motor dealer, was controlled by one man. On March 11th, 1949, he purchased all the shares in another company, and paid £38,475 as the consideration therefor, and as two amounts of compensation for loss of office. That sum was paid in cheques. On March 12th, 1949, a sum of £8,000 in bank notes was lodged by the controller to the credit of the account of the seller of the shares at the latter's bank.

The General Commissioners decided that the £8,000 was paid in connection with the sale and purchase of the shares in the other company; and that the sum represented trading receipts of the appellant company which had not been disclosed.

Held: the General Commissioners' decision was correct.

C. E. Neale & Co Ltd v. Beak

In the High Court of Justice (Chancery Division)
October 23rd, 1961

(Before Mr Justice CROSS)

Income tax - Succession - Losses by predecessor - Profit by successor in same tax year - Whether profit can be set off against loss - Income Tax Act, 1952, Section 341 - Finance Act, 1953, Section 15 - Finance Act, 1954, Section 17.

The appellant company carried on the business of a leather merchant until October 1st, 1958, when the business was acquired by the controlling shareholder. The final profit and loss account of the company was for the period July 6th to September 30th, 1958, and the first account of the business in its new ownership was for the period from October 1st, 1958, to July 5th, 1959. In the period ended July 5th, 1958, the company made a loss of £626, and in the period from July 6th, to September 30th, 1958, it made a loss of £590. In his first accounting period, from October 1st, 1958, to July 5th, 1959, the acquirer of the business made a profit of £1,332.

The company claimed relief, under Section 341 of the Income Tax Act, 1952, in respect of a trading

loss for the tax year 1958-59. The amount of the loss was £746, and it was made up of £156 (a quarter of the £626), and of the £590 already mentioned. The company also made a claim under Section 20 of the Finance Act, 1954, to set off £29 against its income for the same tax year. Thus the total amount claimed was £775. The respondent contended that Section 17 of the Finance Act, 1954, applied, and that therefore the trade could not be treated as having been permanently discontinued, or a new trade set up, on October 1st, 1958; that the trading result for the whole of the year 1958-59 had to be looked at; and that as a profit of £858 (two-thirds of £1,332) was made in the period from October 1st, 1958 to April 5th, 1959, and it exceeded the total of the losses made by the company between April 6th and September 30th, 1958, no relief could be obtained under Section 341. The Special Commissioners decided in favour of the respondent.

Held: the Special Commissioners' decision was correct.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Small Practitioner' Inquiry

SIR, - As one of those 'practising members who have expressed themselves strongly, not least through your correspondence columns', may I say how cordially I welcome the inquiry which the President has inaugurated.

May I take the liberty to express through your columns my hope that the many small practitioners who have communicated with me during the past year on the subject will really take time in the midst of their busy and overburdened lives to co-operate fully and creatively with the Institute through their district societies.

I think the result may be surprising.

Yours faithfully,

METCALFE COLLIER, F.C.A.

Enfield, Middlesex

The Inclusion of Oncost in Stock

SIR, - Mr Sydenham's most interesting and informative paper reproduced in your issues of October 14th, and 21st, raises a principle he rightly calls controversial, but I do think that his arguments for the direct cost method can be very strongly challenged. Much could be written justifying the oncost method, but a few points must suffice here.

*To see eye to eye with Mr Sydenham's examples certainly, as he himself suggests, 'strains the imagina-

tion', and why does he have to base his system of costing on the assumption that a business exists only to go bust at the end of one of his 'years'? Does he really think that the normal firm incurs running expenses with no thought of production in mind, and that the one is not necessarily or even commonly coupled with the other? Is he seriously contending that, since oncost recovery methods can be no more than approximate, then that is sufficient justification for producing false costs by omitting them altogether? Does he seriously hold up the *Duple* case as an example of almost universal application, thereby being less than fair to the majority of businesses and to the eminent accountants who serve them? Why is there this dislike of 'past expenses', since they are an essential element of current costs, and must be recovered against current sales?

While admitting that one cannot be dogmatic on this question on the inclusion or omission of some element of oncost in stock valuations, most cost accountants would, I imagine, regard a 'cost' as incomplete if it did not contain a figure for oncost necessarily incurred by virtue of work being in progress. It is no case against this that the figure must be approximate, for are not all costs, including Mr Sydenham's direct ones, at the mercy of recording often done by the unskilled?

Three schools of thought exist on this oncost

question: (a) that put forward by Mr Sydenham, the complete omission theory; (b) the one advocated by the supporters of marginal costing - include all variable oncost, omit all fixed; (c) the orthodox theory - include all production oncost, both variable and fixed, omit selling and distribution oncost. Since Mr Sydenham has given the very effective reason in paragraph 82 why (b) is unsatisfactory, then we are left with (c) as the only sensible method. And why not?

Yours faithfully,
St Ives,
Huntingdon.
ERNEST K. GROSS, A.C.W.A.

Should Britain Decimalize?

SIR, - One point in favour of our present system is, I feel, worthy of mention. A shop assistant, in a grocers for example, can, by mental arithmetic, quickly arrive at the total value of a number of articles purchased, but I defy anyone to do the same exercise in a decimal currency. Those of us who have visited the Continent will recall the inevitable resort to pencil and paper when more than one purchase at a time has been made.

Yours faithfully,
H. G. J. FOULGER, F.C.A.
Brookman's Park, Herts.

CHARTERED ACCOUNTANTS' DINNER IN LEEDS

The Growth and Influence of the Profession

The annual dinner of the Leeds, Bradford and District Society of Chartered Accountants was held on October 27th, at the Queen's Hotel, Leeds. The President, Mr James S. Heaton, J.P., F.C.A., was in the chair, and among the principal guests were the Lord Mayor of Leeds, Alderman P. A. Woodward, J.P., Mr P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales, Mr Roy Borneman, Q.C., and Mr Kenneth Young, B.A., Editor, *The Yorkshire Post*.

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Borneman, who said his remarks really embraced the whole profession. It was a profession which undoubtedly had had the most rapid growth in the last fifty or a hundred years of any profession in the country. It was a growth which, of course, carried with it a growing responsibility as well as growing dignity, status and rights. If one wanted to put it into a mere three or four sentences, the big change was that whereas fifty or sixty years ago the industrialists of this country would do something and ask the accountant afterwards about the results of what they had done, today they asked the accountant what they should do first, or what would be the effect of what they wanted to do.

'That is a very big change,' said Mr Borneman, 'and I

think your Institute has appreciated over the years that it carries with it far more responsibility than it does rights.'

There was no doubt that the profession came into closer touch with industry and commerce than any other. There was also no doubt that all the professions in this country had to lend their aid to see that the ethics of professional life were so far as was possible imbedded into the commercial life, though that was not an easy matter. Always in this country experts of any kind would be regarded with suspicion - probably rightly. They always knew what other people had done, and the easiest way to realize that experts were subject to suspicion was to listen to two experts giving evidence on the same set of facts! (*laughter*).

The way in which the accountancy profession had impinged upon the commercial, industrial and financial life needed no emphasis and everybody appreciated it. He did not know how many accountants would have been on the boards of public companies fifty or sixty years ago, but there would not have been an iota as many as there were today.

'What you, as members of the boards of companies, have most to contribute towards commercial life is that you imbue the boards with the ethics and etiquette of the profession, and that is probably the biggest contribution the profession had made since the First World War.'

New Functions

Replying to the toast, the President of the Institute said they lived in a changing world, and the Institute had been changing with it. Their expansion had been pretty rapid in recent years and the members of the Institute were now fulfilling functions which the past founders would never have contemplated.

Their members had spread into all forms of business activity and here they had a contribution to make, because those they trained as articled clerks had a chance of climbing up to the top of any tree; but in the process of climbing, it was up to them to see that the figures they dealt with correctly represented human activities and that they gave a true and fair view of any situation.

Mr Granger said the Institute was carrying out an inquiry into what might be done for the benefit of those who preferred to practice on their own or in the smaller units. That inquiry had been put out through the district societies all over the country and through them they were attempting to discover what could be done for the individual who preferred to remain independent in these days of amalgamations.

He thought it was important to try to see if the profession could offer them any particular help at a time when the whole trend of life was towards the big unit and not the small one.

The President of the Society, Mr Heaton, proposing the toast of 'Our Guests', referred to the special place that Leeds was coming to have in the art world, and said that the recent Leeds Triennial Music Festival had

been a great success and had redounded greatly to the credit of the city.

'We in the North are not so hard-boiled and commercialized as some people might expect', he said.

In a reference to the responsibilities of the President of the Institute, Mr Heaton said that recently, Mr Granger had been the only official accountancy representative in Vienna at the meeting of the World Bank. This indicated the standing of the Institute and could only add to its credit.

Vital Part in Industry

Responding to the toast the Lord Mayor of Leeds said he always felt that the chartered accountant played a vital part in industry, and consequently in maintaining economic stability. The work of the accountant was carried out with efficiency, and without the publicity which so frequently attached itself to the industrial magnate. There was never greater need for qualified and experienced men, faced as Britain was with ever increasing foreign competition and the fact that so many people who had 'never had it so good' tended to spend up to the hilt.

Mr Young, who also responded on behalf of the guests, said that while the period of fifty years ago might perhaps have been described as the great age of the barrister, in the sense that they often became members of company boards, for the same reason it was now the age of the accountant and that was, no doubt, a good thing. What had happened was that the age of speech had turned into the age of figures.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES TAXATION AND RESEARCH COMMITTEE

The one hundred and seventeenth meeting of the Taxation and Research Committee was held at the Institute on Thursday, October 26th, 1961, at 2 p.m. There were present:

Mr J. Cartner (in the chair); Messrs F. W. Allaway, G. R. Appleyard, G. L. Aspell, T.D., R. D. R. Bateman, M.B.E., C. J. M. Bennett, R. P. Brown, K. A. Buxton, W. R. Carter, R. A. Chermiside, L. H. Clark, S. M. Duncan, W. F. Edwards, E. S. Foden, C. R. P. Goodwin, J. S. F. Hill, A. P. Hughes, G. N. Hunter, J.P., R. O. A. Keel, H. Kirton, T.D., S. Kitchen, C. Yates Lloyd, J. W. Margetts, B. A. Maynard, S. A. Middleton, G. P. Morgan-Jones, E. J. Newman, R. D. Pearce, L. Pells, J. Perfect, T. B. Pritchard, A. H. Proud, D. W. Robertson, H. Robinson, H. G. Sergeant, B. D. Shaw, H. C. Shaw, H. Eden Smith, D. E. T. Tanfield, C. C. Taylor, J.P., A. G. Thomas, L. R. Turner, D. C. Urry, J. G. Vaughan, and G. H. Yarnell, and Mr N. B. Hart, with the Assistant Secretaries.

Address by the President of the Institute

The President of the Institute, Mr P. F. Granger, F.C.A., attended the opening of the meeting. In reply to a speech of welcome by the chairman, the President said:

Each year it is the custom for the President of the Institute to be privileged to say a few words at the beginning of the

Taxation and Research Committee's new year of work, and it seems to me that almost every President refers to his happy years with the committee of which he was or was not a founder member. I am afraid I can make no such claim, but I have seen a lot of the work of this committee through membership of the Council and its committees and mainly, of course, through the Parliamentary and Law Committee.

This is the beginning of the committee's twentieth year of office - it was I think formed in May 1942 - at a difficult time in the war. Mr Foden has been on it since the beginning, being the only member of the original committee still sitting and our congratulations are due to him.

During the past year to September 30th, 1961, the Council has published three documents of great importance, i.e. on the Treatment of Stock-in-trade and Work in Progress in Financial Accounts; General Principles of Auditing; and on the Audits of Building Societies. Furthermore the Council has submitted memoranda to the Chancellor of the Exchequer on the Finance Bill, 1961; Accounts and Audit of Friendly Societies and Industrial and Provident Societies; and Decimalization of the Currency. In addition, memoranda have been submitted to the Board of Inland Revenue on Schedule E and A notices of assessment:

Practically all the above documents and memoranda have had their birth pangs in this committee and great credit is due to the members of it for the work they have put in. No committee of the Council is more appreciative of this work than the Parliamentary and Law Committee, though, of

course, there are times when men of mettle meet; when the sparks fly, the word 'disgusting' is used and so on, because the child you have delivered has not quite the right shape or colour for adoption by the Council and vice versa.

You have submitted no less than five reports on subjects of great professional interest which are currently under review by the Parliamentary and Law Committee, and you have a vast number of other matters under consideration at the present time. It will be a busy year.

Before I finish I would like to refer to the great work of Mr N. B. Hart who was a member of the committee for many years, acted as chairman of many subcommittees and did a great job for the Institute. In addition, there is Mr G. N. Hunter, your immediate past chairman, who has served on the committee since 1953. He also has been a stalwart and done great work as chairman of your committee and as chairman or member of subcommittees.

Finally, I must refer to your new chairman, Mr J. Cartner, a director of Metal Box and a member of this committee since 1950. You do not become chairman of the committee without having done your stuff. I congratulate him on his appointment and wish him a pleasant and profitable year of office, and you all wisdom and happiness in your deliberations.

Mr G. N. Hunter, J.P., F.C.A.

A hearty vote of thanks was accorded to Mr G. N. Hunter for his services as chairman during the year 1960-61.

Membership

The chairman extended a warm welcome to the following new members of the committee:

Mr G. L. Aspell (Leicester).
Mr A. P. Hughes (London).

Mr B. A. Maynard (London).
Mr E. J. Newman (Birmingham).
Mr T. B. Pritchard (Bristol).
Mr L. R. Turner (Sheffield).
Mr D. C. Urry (London).

It was agreed that letters of appreciation for their services be sent to the following who have retired from membership of the committee:

Mr G. F. Ansell (1959-61).
Mr C. V. Best (1958-61).
Mr N. B. Hart (1950-54 and 1955-61).
Mr J. A. B. Keeling (1957-61).
Mr J. W. Walkden (1955-61).
Mr F. J. Weeks (1954-61).

Standing Subcommittee

A report was received from the Planning Subcommittee.

Subcommittees

Progress reports were received from eleven special subcommittees.

Future Meetings

The one hundred and eighteenth meeting of the committee will be held on Thursday, December 14th, 1961, and the following dates were provisionally fixed for meetings in 1962:

Thursday, February 8th, 1962.
" April 12th, 1962.
" June 14th, 1962.
" September 13th, 1962.
" October 11th, 1962.
" December 13th, 1962.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS BROWN FLEMING & MURRAY, Chartered Accountants, announce the retirement of Mr G. F. R. BAGULEY, M.C., F.C.A., who has been a partner in the London firm since 1926.

MESSRS COOPER BROTHERS & Co and COOPERS & LYBRAND announce that they have opened an office at Wyatt's Building, Hunter Street, Port Moresby, Papua, New Guinea.

MESSRS PIKE, RUSSELL & Co, Chartered Accountants, of Adam House, 1 Fitzroy Square, London W1, announce that Mr G. J. EDKINS, A.C.A., has been admitted a partner in their London firm as from November 1st, 1961.

Mr ALLEN J. PRIOR, B.Sc., F.C.A., announces that his address is now 55 Kendor Avenue, Epsom, Surrey. Telephone: Epsom 3147.

MESSRS WOOLLEY & WALDRON, Chartered Accountants, of 8/10 Portland Terrace, Southampton, announce that as from October 5th, 1961, they have admitted into partnership Mr J. R. ASLIN, A.C.A., who has been a member of the staff for ten years.

MESSRS JOHN J. WELCH & Co, Chartered Accountants, of 19 Buccleuch Street, Hawick, Roxburghshire, announce that Mr JOHN AITKIN, C.A., became a partner in the firm on November 1st, 1961. Mr AITKIN joined the firm in 1950 as an apprentice and

completed his training in Edinburgh. After National Service with the 1st Battalion, K.O.S.B., he rejoined the staff in the Hawick office in 1958 as a qualified assistant.

Appointments

Mr F. J. Goodall, F.C.A., chief accountant of W. H. Allen, Sons & Co Ltd since 1958, has been appointed a director of the company.

Mr E. S. Readwin, F.C.A., deputy chairman of Bookers Sugar Estates Ltd, has been appointed chairman of the company with effect from January 1st, 1962.

Mr A. W. Walker, C.A., has taken up the appointment in London of financial director of Air Products Ltd, and has resigned from the board of Richardson Westgarth (Hartlepool) Ltd.

Mr H. C. S. Whalley, F.C.A., has been appointed chief trustee manager of Martins Bank Ltd as from November 1st.

Mr H. A. Williams, F.C.A., general manager of Union Acceptances Ltd, has been appointed a director of the company; he has also been appointed a director of First Union General Investment Trust Ltd.

Mr R. E. Stead, F.S.A.A., A.C.W.A., has been appointed general manager of the West Lancashire Group of the North Western Gas Board.

IN PARLIAMENT P.A.Y.E.

Sir W. ROBSON BROWN asked the Chancellor of the Exchequer how much time is normally allowed for the payment of tax under Pay As You Earn; in how many cases of firms becoming bankrupt a large or major part of the deficiency is represented by liability for tax under Pay As You Earn; what is the estimated annual loss to the Revenue of such defections; and whether he is satisfied with the present working of the system.

Sir E. BOYLE: Under the P.A.Y.E. regulations the tax must be paid to the collector of taxes within fourteen days of the end of the month in which it was deductible. If the employer does not pay promptly the collector presses for payment and, if necessary, proceedings are taken to recover the tax.

The information asked for in the second part of the question is not available, but in the year ended September 30th, 1960, £158,000 P.A.Y.E. tax due from employers was remitted on grounds of insolvency. This compares with a total P.A.Y.E. yield over £1,000 million. I am, in general, satisfied with the working of the system.

Hansard, Oct. 24th, 1961. Written Answers. Col. 54.

Decimal Currency

Sir J. PITMAN asked the Chancellor of the Exchequer whether he will give an assurance that manufacturers of machines and of business systems and publishers of mathematical series who will be affected by a change to decimalization will be consulted before a date is chosen and announced for the commencement of any such change, in order to avoid the preparation of new mathematical tables, business machines and systems based on any criteria to be abandoned in the foreseeable future.

Sir E. BOYLE: If a decision to decimalize the currency could be taken, consideration will be given, in the planning and introduction of any new system, to the need to avoid any unnecessary additional burden on the economy.

Sir J. PITMAN asked the Chancellor of the Exchequer whether, in his further consideration of decimalization, he will take into account the possibility of making the chosen unit divisible into one hundred equal parts.

Sir E. BOYLE: Yes.

Hansard, Oct. 24th, 1961. Written Answers. Col. 55.

Jenkins Committee: Report

Mr DU CANN asked the President of the Board of Trade when the Jenkins Committee will publish its report.

Mr N. MACPHERSON: My right hon. friend understands that the Committee has completed the hearing of oral evidence and that it is now considering the terms of its report. It is still too early to say when this will be ready.

Hansard, Oct. 24th, 1961. Written Answers. Col. 56.

SCOTTISH INSTITUTE'S NEW DIRECTORY

The *Official Directory, 1961-62*, of The Institute of Chartered Accountants of Scotland, now published, shows that membership at July 1st, 1961, numbered 6,928 compared with 6,733 in the previous year. An analysis of this total reveals that there were 3,611 members in Scotland at July 1st of whom 1,074 were 'in practice on their own account or as partners in

firms'. Members in the United Kingdom outside Scotland numbered 2,149 (253 in practice as principals or partners), and there were 1,168 members abroad (199 in practice as principals or partners).

The *Directory* extends to 582 pages and contains the usual alphabetical and topographical lists of members, together with details of the membership of the Council of the Institute and of the Standing and Local Committees for 1961-62.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS Members' Dinner

The Institute of Cost and Works Accountants held a dinner at the Grocers' Hall, London, last Tuesday. The President, Mr F. M. W. Hird, F.C.A., F.C.W.A., was in the chair, and the guests included:

Mr P. F. Barrett, O.B.E. (*Deputy High Commissioner for the Federation of Rhodesia and Nyasaland*); Mr W. J. Carron (*President, Amalgamated Engineering Union*); Sir Cecil Crabbe (*Chief Registrar of Friendly Societies*); Mr W. R. Cumming, C.V.O. (*Deputy High Commissioner for Australia*); Sir Robert Fraser, O.B.E. (*Director-General, Independent Television Authority*); Mr P. F. Granger, F.C.A. (*President, The Institute of Chartered Accountants in England and Wales*); Sir Robert Gransden, C.B.E. (*Agent of the Government of Northern Ireland in Great Britain*); Mr J. H. Gunlake, C.B.E. (*President, The Institute of Actuaries*); Mr J. E. Harris, B.COM., F.A.C.C.A. (*Immediate Past President, The Association of Certified and Corporate Accountants*); Sir Alexander Johnston, K.B.E., C.B. (*Chairman, Board of Inland Revenue*); Sir Douglas Logan (*Principal, University of London*); The Rt Hon. the Lord Milne, C.A. (*Master, The Worshipful Company of Grocers*); The Rt Hon. the Lord Piercy, C.B.E. (*Chairman, Industrial and Commercial Finance Corporation*); Dame Mary Smieton, D.B.E. (*Permanent Secretary, Ministry of Education*); Mr C. R. Sopwith, F.C.A. (*The Public Trustee*); Mr Graham Usher, M.B.E., C.A. (*President, The Institute of Chartered Accountants of Scotland*).

The toast of 'The Lord Mayor and the Corporation of London and the Sheriffs' was proposed by Mr K. S. Ayres, F.C.W.A., a member of the Council of the Institute, and the Lord Mayor, Sir Bernard Waley-Cohen, responded.

Miss B. A. Godwin, O.B.E., Chairman of the Trades Union Congress, proposed the toast of 'The Institute of Cost and Works Accountants', and Mr Hird replied.

Belfast Luncheon

The President of The Institute of Cost and Works Accountants, Mr F. M. W. Hird, F.C.A., F.C.W.A., gave a luncheon party on Friday (yesterday) at the Grand Central Hotel, Belfast. Those present were:

Mr S. D. Crossey (*Deputy City Treasurer, Belfast*); Mr G. A. Pogue; Mr W. T. Price (*general manager, International Computers & Tabulators Ltd*); Mr Denis Rebbeck, C.B.E. (*deputy chairman, Harland & Wolff Ltd*); Mr J. E. Richardson; Mr Robert M. Sayers, C.B.E. (*chairman and managing director, 'Belfast Telegraph'*); Mr S. Thompson (*chairman and managing director, Associated Feed Manufacturers Ltd*); Mr Martin Wallace (*The Lord Mayor of Belfast*); Mr Stanley E. Woods; Mr John Young (*director and general manager for Northern Ireland, Gallaher Ltd*); Mr Derek du Pré (*Secretary of the Institute*).

LONDON CHARTERED ACCOUNTANTS' DINNER

The London and District Society of Chartered Accountants held a dinner at Carpenters' Hall on

October 26th. The Chairman of the Society, Mr G. F. Ansell, F.C.A., presided and the guests included:

Mr P. F. Granger, F.C.A. (*President of The Institute of Chartered Accountants in England and Wales*); Mr P. F. Carpenter, F.C.A. (*Vice-President of the Institute*); Mr A. W. Howitt, M.A., F.C.A., F.C.W.A. (*President, London and District Society of Cost and Works Accountants*); Mr H. J. Jennings, A.A.C.C.A. (*President, London and District Society of Certified and Corporate Accountants*); Mr A. S. MacIver, C.B.E., M.C., B.A. (*Secretary of the Institute*); Mr T. G. B. Matheson, C.A. (*Acting Chairman, London Local Committee of the Scottish Institute*); Miss Joan Parry, F.C.A. (*Chairman, Women Chartered Accountants' Dining Society*); Mr Walter Taplin, M.A., B.COM. (*Editor of 'Accountancy'*); Mr Arthur E. Webb (*Editor of 'The Accountant'*).

The toast of the Institute was proposed by Mr Ansell and the President replied. Mr MacIver responded on behalf of the guests to a toast proposed by Mr A. P. Hughes, F.C.A. At the conclusion of the dinner the company was entertained by Mr Jon Pertwee.

JERSEY ASSOCIATION OF ACCOUNTANTS

Fourth Annual Dinner

The fourth annual dinner of the Jersey Association of Practising Chartered Accountants was held at the Hotel L'Horizon, Jersey, on Saturday, October 28th.

Mr W. T. Scarborough, F.C.A., was in the chair and the principal guests were: The Lord Coutanche, Bailiff of Jersey, Mr P. F. Carpenter, F.C.A., Vice-President of The Institute of Chartered Accountants in England and Wales, and Mr G. F. Ansell, F.C.A., Chairman of the London and District Society of Chartered Accountants.

DEFENCE BONDS: CONVERSION OFFER

The Treasury has announced that a conversion offer will be made to holders of 3 per cent Defence Bonds (Conversion Issue) issued on March 1st, 1952, and maturing on March 1st, 1962, of which £9 million are outstanding.

These holders will be invited to exchange their holdings into 5 per cent Defence Bonds (Conversion Issue) on March 1st, 1962. Holders who accept the offer of conversion will receive a final interest payment of six months' interest at 3 per cent per annum on March 1st, 1962. The list of acceptances will be closed on December 6th, 1961.

They also announce that a conversion offer will be made to holders of 3 per cent Defence Bonds purchased between September 15th, 1951, and March 14th, 1952, and maturing on March 15th, 1962, of which £5.8 million are outstanding.

Holders will be invited to exchange their holdings into 5 per cent Defence Bonds (Conversion Issue) on March 15th, 1962. Holders who accept the offer of conversion will be paid interest at 3 per cent per annum on March 15th, 1962, for the period from

September 15th, 1961, to March 14th, 1962. The list of acceptances will be closed on December 15th, 1961. Acceptance of both these offers of conversion will not involve any break in the holders' encashment rights.

E.C.G.D. BUSINESS

Business declared under the Export Credit Guarantee Department's 'commercial' insurance during the third quarter of 1961 amounted to £190.5 million, a record for the quarter, compared with £180.2 million in the previous year. Both the number and value of comprehensive policies increased during the quarter, showing a rise over the past twelve months of some 20 per cent by value, from £699.3 million to £835.4 million.

Specific policies were issued during the quarter for business to a value of £27.1 million, including nuclear power plant (£5.5 million), conventional power plants (£8.2 million), vehicle assembly plant (£2.3 million), chemical plant (£1.4 million), and a cargo vessel (ship mortgage cover) (£1.1 million). One claim paid during the quarter amounted to £314,000, in respect of default on a project in the Middle East.

Not included in the above figures are the 446 'small exporter' policies sold since their introduction in April, under which cover for £638,000 has already been allocated. Under the financial guarantee facility, also announced in April, cover has been agreed in principle on five projects valued at about £69 million with loan values totalling some £53 million.

LIFE ASSURANCE STATISTICS

For the first time ever, more than one million new life assurance policies were taken out in 1960 according to statistics published last week by The Life Offices Association and the Scottish Life Offices for the year 1950-60.¹ The actual total was 1,020,000 compared with 939,000 in 1959.

The number of policies in force at the end of last year was 9,910,000 and sums assured and bonuses in force amounted to £9,090 million. Ordinary life annuity funds of life assurance companies reached £4,173 million – a rise over the year of £410 million. After allowing for transfers, the net figure amounted to £405 million – an increase of £57 million over the preceding year. Payments to policyholders during 1960 was £277 million and included £37 million in pension and annuity payments, £62 million in respect of payments on death and £100 million in respect of maturing policies. These compared with the 1959 figures of £255 million, £31 million, £55 million and £98 million respectively. Total life and annuity funds at the year end stood at £4,173 million – a rise of £433 million over the 1959 figure.

¹ *British Life Assurance Statistics (Ordinary Branch) 1959-60*, available on request from The Life Offices' Association, 33 King Street, London EC2, or Associated Scottish Life Offices, 23 St Andrew Square, Edinburgh.

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SIR JAMES MARTIN LODGE**(Formerly The Incorporated Accountants' Lodge)**

The installation meeting of the Sir James Martin Lodge (formerly The Incorporated Accountants' Lodge) was held on October 24th at Freemasons' Hall, Great Queen Street, London WC2.

W. Bro. F. A. Roberts installed his successor, Bro. J. W. Pirie, M.B.E., as W.M. W. Bro. J. W. Pirie invested the following officers:

Bro. E. A. Woods, S.W.; Bro. L. J. D. Jones, J.W.; W. Bro. C. V. Best, Treasurer; W. Bro. E. B. Trimmer, Secretary; W. Bro. E. J. P. Garratt, D.C.; Bro. E. J. Morris, S.D.; Bro. A. B. Sturgess, O.B.E., J.D.; W. Bro. A. V. Hussey, A.D.C.; W. Bro. J. C. Chaumeton, Almoner; W. Bro. G. J. Hakin, Organist; W. Bro. E. Downward, S.G.; Bro. H. N. Piper, Bro. R. Moorhouse, Bro. J. Agar, Bro. S. Ward, Stewards; W. Bro. A. C. Chitty, Tyler.

The address of the secretary of the Lodge is 171 Petts Wood Road, Orpington, Kent.

**NORTHERN SOCIETY OF
CHARTERED ACCOUNTANTS****Annual Dinner**

The annual dinner of the Northern Society of Chartered Accountants is to be held on Friday, November 10th, at the Old Assembly Rooms, Newcastle upon Tyne.

CITY DISCUSSION GROUP

The next meeting of the City Discussion Group of Chartered Accountants will be held on Wednesday next, November 8th, at the Tiger Tavern, 1 Tower Hill, London EC3, at 6 p.m. for 6.30 p.m. The topic for discussion will be 'Accountants in management - help or hindrance', introduced by Mr P. J. Prior, financial director, British Aluminium Co Ltd.

SW. LONDON DISCUSSION GROUP

The next meeting of the South West London Chartered Accountants' Discussion Group will be held at the Kingston Hotel, Kingston upon Thames, on Monday next at 6.45 p.m. The subject for discussion will be 'Internal check' and will be opened by Mr B. C. Berkinshaw-Smith, B.A., A.C.A.

**THE ACCOUNTANTS' CHRISTIAN
FELLOWSHIP**

The monthly meeting for Bible reading and prayer will be held at 1 p.m. on Monday next, November 6th, in the vestry of St Mary Woolnoth Church, King William Street, London EC3. The scripture for reading and thought will be John, Chapter 2, verse 23 to chapter 3, verse 16. (Born of the Spirit.)

**THE CHARTERED ACCOUNTANT
STUDENTS' SOCIETY OF LONDON****Next Week's Meetings**

The following meetings of the London Students' Society will be held next week:

Monday, 5.30 p.m., at the Institute, Moorgate Place, EC2. Lecture on 'Take-over bids', by Mr F. W. Lindgren, F.C.A. Chairman: Mr Douglas A. Clarke, LL.B., F.C.A., (Member of the Council of the Institute and a Vice-President of the Students' Society).

Tuesday, 6 p.m., at the Institute. Debate on the motion 'This house would like to throw convention to the winds'.

6.15 p.m., at Bedford. Lecture and demonstration of mechanized accounting by Mr T. G. H. Newsum, A.C.A.

Wednesday, 5.30 p.m., Lecture and demonstration of Remington accounting machines (limited number).

Thursday, 5.15 p.m., at the Institute. Introductory course lecture on 'The conduct of a typical case in the Courts', by Mr Patrick W. Medd, Barrister-at-law.

Friday, 2 p.m., at Southend. Lectures on 'The Stock Exchange' and 'General financial knowledge'.

5.15 p.m., at the Institute. Introductory course lectures on (1) 'Management accounting and costing', by Mr Kenneth G. Bishop, A.C.A. (chief accountant, Yardley & Co Ltd) and (2) 'Partnership law', by Mr Patrick W. Medd, Barrister-at-law.

Students are reminded that the Library and Study Room at Spencer House, South Place, EC2, are open on Mondays to Fridays from 9.30 a.m. to 5.30 p.m. The Study Room is available in the evening by prior arrangement.

Golf

The annual meeting of the Golfing Society took place recently at Moor Park Golf Club in glorious weather. The result of the morning round played over the High Course for the E. F. Weston tankard was as follows:

L. R. Nahon	98-24=74*	P. Meredith	84-8=76
R. G. Sinclair	81-7=74*	W. Caldwell	85-7=78
R. King	78-2=76	M. Waller	85-6=79
I. Watson	85-9=76		

*Decided on last nine holes.

The results of the afternoon round over the West Course were as follows:

Watson and Stainforth	.. ..	41 points
Stocks and Stocks	.. ..	35 "
Sinclair and Godden	.. ..	33 "
Lyttleton and Urquhart	.. ..	32 "
Meredith and Caldwell	.. ..	32 "

**THE BRADFORD AND DISTRICT CHARTERED
ACCOUNTANT STUDENTS' SOCIETY**

We were pleased to receive the first improved edition of The Bradford and District Chartered Accountant Students' Society's half-yearly news-letter which has been turned into a sixteen-page magazine.

The magazine, which includes the 1961 lecture

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programme, reports from branches, examination successes and lists of new members, is believed to be the first of its kind published in this form by a student society. It represents an entirely new approach in its presentation of students' society affairs and the committee are to be congratulated on their enterprise.

LONDON CERTIFIED ACCOUNTANT STUDENTS' SOCIETY

Mr G. L. Barker, F.A.C.C.A., President of The Association of Certified and Corporate Accountants, attended the first of the 1961-62 meetings of the London Certified Accountant Students' Society, held at the Chartered Auctioneers' Hall, Lincoln's Inn Fields, London WC2, on October 25th.

A very attentive audience was well rewarded by an interesting mock creditors' meeting held under the supervision of Mr G. A. Wale, F.A.C.C.A., and members of his staff.

COMPUTER EXHIBITION IN GLASGOW

International Computers and Tabulators Ltd are to hold an exhibition, for accountants and business executives, of data processing equipment in the McLellan Galleries, Glasgow, from November 13th to 16th.

The exhibits will include representative machines from I.C.T.'s 21-, 40- and 80-column range of conventional punched-card equipment as well as their 555 plugged programme computer and their new Type 558 electronic computer. In addition, I.C.T. films on computer applications will be shown and there will be lectures, specifically intended for student members of Scottish professional bodies, by specialists on both punched-card and computer techniques.

LOCAL LOANS FUND: INTEREST RATES

Loans advanced from the Local Loans Fund to local authorities on and after October 14th, 1961, carry the following rates of interest:

	Per cent
Loans for not more than five years	7½ (7½)
Loans for more than five years but not more than fifteen years	7½ (7½)
Loans for more than fifteen years but not more than thirty years	7 (7)
Loans for more than thirty years	7 (7)

The previous rates of interest (shown in brackets) had been in force since August 5th, 1961. The new rates apply only to future loans; the rates of interest on existing loans are unaffected.

THE INSTITUTE OF OFFICE MANAGEMENT Revised Diploma

The Council of The Institute of Office Management have announced a revised syllabus and regulations for their Diploma in Office Management.

The diploma is now a post-graduate award and candidates are required to hold a suitable qualification of at least Intermediate standard relevant to the career to which they intend to follow. Under the new regulations, such candidates are required only to study and be examined in subjects concerned with office management and which comprise part B of the new syllabus. Those whose previous studies have not provided an adequate preparation are required first to study and be examined in subjects comprising part A of the syllabus. The revised diploma is as follows:

Part A THE OFFICE SERVICE

Accounting practice
Cost accounting practice
Higher business control

Part B OFFICE MANAGEMENT

Fundamentals of office management
Office methods
Office administration, and either
Management principles and practice, or O. & M. practice.

Copies of the new syllabus are obtainable from the Education Department, The Institute of Office Management, 56 Victoria Street, London SW1.

Organization and Methods Course

A three-week residential course on organization and methods is to be held at the Spa Hotel, Tunbridge Wells, from November 19th to December 8th.

Arranged by The Institute of Office Management, the course is designed for those who expect to become O. & M. practitioners or already have some experience in this field. It should also be of benefit to senior executives of administrative departments having responsibility for O. & M. Subjects will include 'Calculating accounting machine applications', 'The use of punched cards', and 'Introduction to work measurement', by Mr H. P. Cemach, F.C.A., F.I.L., M.I.O.M., M.INST.W.S.; 'Form design', by Mr W. A. Green, M.I.O.M., and 'Supervision and the human aspects in organization', by Mr J. Stapleton, M.I.O.M.

Further particulars are obtainable from the Course Secretary, The Institute of Office Management, 56 Victoria Street, London SW1.

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DOES the business man realize the wealth of sound advice on financial and fiscal matters which his accountant has to offer him? Is the profession developing a policy to promote awareness among accountants of the services that are expected of them? How can understanding between business men and accountants be encouraged? These are some of the questions which SIR DONALD PERROTT, K.B.E., in effect asks in the paper which he gave to the recent Cambridge Summer Course of The Institute of Chartered Accountants in England and Wales and which is reproduced elsewhere in this issue. His excellent talking points sparked off many controversial discussions at Cambridge and we have no doubt that in the winter months ahead they will inspire many more at district society and kindred meetings.

Two recent indications that the professional bodies are alive to the need for understanding between accountant and client have been reported and commented on in these columns. The first in point of time was the reference (in a leading article in our issue of September 2nd) to the series of public relations clinics which The American Institute of Certified Public Accountants is setting up to assist local societies 'to strengthen the C.P.A. image' in the public mind. A check list has been circulated to professional firms and from the response it is hoped to ascertain the degree to which practising firms are already client relations conscious. The second indication, much nearer home this time, is the Institute's 'small practitioner' inquiry which was the subject of a leading article in our issue of October 21st. The importance of this move by the Council of the Institute cannot be too strongly stressed. The profession must be allowed to develop in a *milieu* from which all elements of unfair competition have been removed.

At the same time, accountants, in turn, must possess the full armoury of services likely to be asked of them and, on this point, SIR DONALD is rightly insistent that the training of the professional man should be tailored to meet such demands. Business men may be divided into two categories – those who already know what they want from an accountant and those who have to be tactfully educated in the right direction. Both, however, have an instinctive and unerring sense of what a thing is worth and will only pay, as SIR DONALD points out, according to the value of the services they receive. If the practising accountant is to maintain his own economic equilibrium, he must therefore be in a position to give really expert service be he, in practising stature, large or small.

New Estate Duty Loophole

WHEN in 1910 the vulnerable period for liability to estate duty on *inter vivos* gifts was extended from one year to three years by Section 59 (1) of the Finance (1909-10) Act, 1910, Section 59 (2) introduced three exemptions as a counterbalance. The third and principal exemption was in favour of 'gifts which are made in consideration of marriage'. According to one textbook the Inland Revenue take a liberal view of this exemption, applying it to gifts made in anticipation of any marriage which in fact takes place and also to a gift made after marriage in implementation of a covenant made in consideration of the marriage. This liberality perhaps accounts for the absence of any litigation on the exemption – until this year.

The Inland Revenue have not conceded the exemption to gifts made to a person 'not within the marriage consideration', except where such person took only in default of the parties to the marriage and their issue, who of course are within the marriage consideration. Their view of the meaning of 'gifts which are made in consideration of marriage' in this connection has now been successfully challenged.¹

The case arose out of a settlement made in March 1956 by the late MR AUGUSTINE COURTAULD, who died in March 1959, less than the statutory five years afterwards. The property settled was worth some £450,000 and the Inland Revenue claimed estate duty on it under the *inter vivos* gift provisions. The trustees claimed that the property was exempt as a gift made in consideration of marriage.

The settlement was expressed to be made in consideration of the marriage of Mr Courtauld's daughter Perina with Mr Christopher Jeremy King Fordham. The parties were the settlor, the daughter, Mr Fordham, and the trustees. The settlement provided that the beneficial interests created by it were to take effect only on the happening of the marriage and then during a specified period beginning with the marriage, as to both capital and income, at the entire discretion of the trustees in favour of a large class – the issue of the settlor, of Mr Fordham, and of the husband or wife of any of

the settlor's issue. At the end of the specified period the corpus was divisible among the issue then living of the settlor, *per stirpes*. There was a final limitation, in default, in favour of Perina's personal representatives.

It will be seen that the settlement was of a kind recently much in vogue. One of the advantages of such a discretionary settlement is that deaths of beneficiaries do not, at any rate for a very long time, attract any estate duty, since their interest is purely discretionary. Normally, however, the settlor has to survive the settlement by five years, besides being rigorously excluded from benefit. The Inland Revenue claimed duty on the ground that this kind of settlement could hardly have been in contemplation fifty years ago when Section 59 (2) was passed. To be within the exemption the beneficial interests should be taken exclusively, or at any rate primarily, by persons within the marriage consideration; that is the bride and groom and the issue of the marriage.

MR JUSTICE BUCKLEY rejected this contention and the Court of Appeal has now affirmed his decision. LORD EVERSHED said that if the Legislature had intended any such limitation as contended by the Inland Revenue it would have been simple to insert in Section 59 (2) the words 'in favour of persons within the marriage consideration', but these words were not there. Although the persons within the marriage consideration did not have a vested interest, their interests were by no means illusory.

LORD JUSTICE DONOVAN said that, between the making of the settlement and the death, Perina received £4,290 from it and her brother £18,330. Other beneficiaries received benefits not substantially different from Perina's. The Inland Revenue had suggested that the words in the settlement 'Now in consideration of the said intended marriage' were not true; the marriage had simply been the occasion of the settlement, not the cause of it. The evidence did not support the Revenue contention. Had there been no marriage there would have been no settlement. The most that one could say was that the settlor had taken the opportunity of including persons who were outside the marriage consideration.

¹ Rennell v. C.I.R. (*The Times*, October 31st).

Points on Tax Appeals

With Particular Reference to Isolated Transactions

by K. BUCKLEY EDWARDS

SECTION 52 (5) of the Income Tax Act, 1952, provides, in effect, that an assessment to tax stands unless and until the taxpayer satisfies the Appeal Commissioners that it is excessive or incorrect. This position is the reverse of that which obtains under the criminal code, which regards an accused person as innocent until he is proved guilty.

Subject to what is said later, no matter how excessive an assessment may be or to what extent it rests upon pure guesswork on the part of the Revenue, the taxpayer is saddled with the task of proving it is wrong if he objects to it. In other words, the onus of proof is upon him (*Norman v. Spaldier* (23 A.T.C. 362; 26 T.C. 293)). And this does not simply mean that he must open his case, but that he must prove it right through from beginning to end. Moreover, on an appeal, the taxpayer runs the risk of having his assessment raised as well as reduced, since the function of the Commissioners is to make an estimate of the profits of the taxpayer which is fair to him and to the general body of taxpayers – ‘the hidden parties to the appeal’ (see *C.I.R. v. Sneath* (11 A.T.C. 53; 17 T.C. 149); *R. v. Special Commissioners of Income Tax; ex parte Elmhirst* (14 A.T.C. 509; 20 T.C. 381)). If the taxpayer is dissatisfied with the determination of the Commissioners, he has a right of appeal to the High Court by way of case stated, but upon a ‘point of law’ only – though this expression, as appears later, bears a somewhat extended meaning. On the other hand, he may find that the decision of the Commissioners is binding upon him, even though the High Court itself would have reached a different conclusion on the same facts.

Shifting of Onus

Exceptionally, the onus of proof is upon the Crown in three instances: (1) if assessments to income tax, surtax or profits tax are made outside the statutory time limits on the ground of fraud or wilful default, and the taxpayer denies the allegation, there is a preliminary onus on the Crown to establish a prima facie case; but when the Crown has proved fraud or wilful default, the onus of challenging the assessments again falls upon the taxpayer (*Barney v. Pybus* (36 A.T.C.

14; 37 T.C. 106)); (2) the Crown must establish at least a prima facie case where an appeal is made against a surtax direction under Section 247 of the Act of 1952; in *Thomas Fattorini (Lancashire) Ltd v. C.I.R.* (21 A.T.C. 98; 24 T.C. 328) it was decided in the House of Lords that upon the conclusion of all the evidence the burden was upon the Crown to establish that the company unreasonably withheld its income from distribution; (3) the procedure applicable in appeals against surtax directions also applies to appeals against profits tax directions under Section 32 of the Finance Act, 1951, except that, if the transaction falls within subsection (3), there is a presumption against the taxpayer.

‘Point of Law’

It is sometimes open to question whether a finding of the Appeal Commissioners is to be regarded as a pure finding of fact, or as the determination of a question of law or of mixed law and fact. If the case for the opinion of the High Court discloses on the face of it that the conclusion of the Commissioners has been based on a misunderstanding of the law in a material respect (for example, that a transaction is not an adventure in the nature of trade because it is an isolated transaction – the profits of which may or may not be taxable, according to circumstances), then there will be nothing to prevent the High Court from reversing their decision.

The same position obtains where the question is one of mixed law and fact and, again, the Commissioners have misdirected themselves on the law. But the case law on the subject goes further. It is universally conceded that, though the finding of the Commissioners is a pure finding of fact, it may be set aside on grounds which have been stated in various ways, but which may be fairly summarized by saying that the Court may reverse the finding if it appears that the Commissioners have acted without any evidence, or on a view of the facts which could not reasonably be entertained.

But when, it may be asked, is a finding a pure finding of fact? This is a somewhat difficult question, but so much is clear. It is a question of law what are the characteristics of an adventure

in the nature of trade, or, in other words, what the statutory language means; but it is a question of fact whether, assuming the Commissioners are rightly directed as to the law, the taxpayer is in fact carrying on a trade. This is in line with the rule that it is a question of law what is murder, but a question of fact for the jury (having been directed by the judge as to what is murder) whether murder has been committed. Appeal Commissioners, making an inference of fact that a transaction is, or is not, an adventure in the nature of trade, are assumed to be similarly directed, and their finding thus becomes an inference of fact.

On the other hand, if the admitted or proved facts all point one way, yet the inference drawn from those facts by the Commissioners points the other way, it is said that the Commissioners have made a wrong inference of fact because they have misdirected themselves in law, or, more shortly, that they have made a wrong inference of law. Consequently, the Court can upset their finding. Small wonder, then, that the layman finds himself not a little confused when findings of fact by the Commissioners are upset by the High Court but upheld by the Court of Appeal and *vice versa*.

An Interesting Case

In *Jenkinson v. Freedland* (39 A.T.C. 452) the taxpayer was managing director of a furniture company and the virtual owner of two chemical companies concerned in the manufacture of resins. He purchased two large metal stills or reactors which had been scrapped and were awaiting break-up, for £80 each. These stills were covered inside and out with a sticky resinous substance which prevented the machinery inside from working and rendered them unserviceable. Using his specialized knowledge of resins, the taxpayer made the stills serviceable and invoiced one still to each of his chemical companies at the price of £3,750 each, which was credited to him in the loan accounts of the two companies. He appealed against assessments to tax in respect of the alleged profits on the sale of the stills. The General Commissioners held that there had been a sale of the stills to the two companies but that the transactions did not constitute an adventure in the nature of trade and they discharged the assessments.

Danckwerts, J., said that on the finding of the Commissioners the taxpayer had purchased the stills for the purpose of resale, but he had not needed to advertise them or take other similar steps with a view to disposing of them because his purchasers had been at his elbow. They were

his own companies for whose businesses the stills had been useful. It was quite clear from the observations of Viscount Simonds in *Edwards v. Bairstow and Harrison* (34 A.T.C. 198; 36 T.C. 220) (see *The Accountant*, November 12th, 1958, pages 550-551) that he (Danckwerts, J.) was entitled and indeed bound to interfere with the conclusion of the Commissioners if he took the view (which he did) that on the findings of fact they had reached a conclusion of law which could not reasonably be supported.

The Court of Appeal ([1961] T.R. 181) took quite the opposite view. It said that if the taxpayer (who had neither before nor since bought any machinery on his own account) had sold the stills to some buyer wholly distinct from and uncontrolled by himself, there could be little doubt that the transaction would be an adventure in the nature of trade. But they had been sold to companies virtually owned by the taxpayer. In these circumstances the taxpayer could have let the chemical companies have the stills at the same figure at which he bought them; but at this point fiscal considerations arose which made it advantageous for the companies to pay a fair price for them so as to qualify for capital allowances in respect of them. Apart from the reluctance of the sellers to dispose of the stills to chemical companies, the taxpayer's two companies might have bought the stills themselves. There were therefore possible inferences (a) that the taxpayer would never have embarked on the deal except with a view to the advantage of his two companies; (b) that he never intended to market the stills in the ordinary course of trade, but rather to supply them as equipment to the companies, and (c) that the so-called profit was the result of fiscal and not trading considerations. The case was one in which some facts pointed in the direction of trade, or an adventure or concern in the nature of trade, and some facts pointed in the opposite direction. It was accordingly a case where the decision of the Commissioners ought not to be disturbed, and the appeal of the taxpayer would be allowed. Harman, L.J., said the Court ought to hesitate long before upsetting findings which were on the face of them pure conclusions of fact, because it would produce a state of uncertainty if in every case the facts had to be gone over again by a second or third tribunal to see whether they tended one way or the other.

Isolated Transactions Generally

It is often in the case of isolated transactions that the greatest difficulty arises in determining

whether a transaction is or is not an adventure in the nature of trade. Broadly speaking, the subject-matter of isolated transactions falls within one or other of two main categories: (i) land, houses, stocks and shares which are normally revenue-producing and so constitute recognized media for investment; and (ii) manufactured articles and commodities outside the first group which in themselves yield no income and can only be made to show a profit if they are sold, either as they stand or after some work has been carried out on them.

In general, transactions falling within the first group escape tax, while those within the second group attract tax; but to this rule there are many exceptions. For example, it is not always sufficient for the subject of an isolated transaction to be a recognized medium for investment; it must also form an economic unit of investment, which it will not do if the subject-matter is land and the outgoings in respect of it exceed the income from it (*Cooke v. Haddock* (39 A.T.C. 244)). On the other hand, an isolated trading transaction of a simple character outside a man's ordinary business does not amount to the carrying on of a trade within the Income Tax Acts so as to render the profits of the transaction liable to taxation; but the position is otherwise if the transaction is of such magnitude that it might in the ordinary course be the whole business for the time being of a person regularly engaged in the trade (*C.I.R. v. Livingston* (11 T.C. 538)).

The effect of a large number of decisions is that a transaction is an incursion into the realm of trade if:

- (i) the thing purchased, in kind or in quantity, is unsuitable for investment or for use by the purchaser personally but is capable of commercial disposal; or
- (ii) a large quantity of something is sold piecemeal, or a large unit is broken up into smaller units and disposed of through an 'organization'; or special exertions are made to find or attract purchasers, such as the opening of an office or large-scale advertising; or
- (iii) there is an altering or maturing, conversion or refitting of something to make it more readily saleable; or
- (iv) the operations involved in the transaction are of the same kind, and are carried on in the same way, as those which are characteristic of ordinary trading in the line of business in which the operation was made; or
- (v) realizations of the same kind of property occur in succession over a period of years or there are several such realizations at about the same

time. (Note: A transaction may be an isolated transaction even though it is not the only transaction of its kind within the taxpayer's lifetime (*C.I.R. v. Reinhold* (32 A.T.C. 10; 34 T.C. 389)).

It is within this broad legal framework (which alters slightly from time to time) that Appeal Commissioners are called upon to determine whether an isolated transaction is or is not an adventure in the nature of trade. If there is evidence to support their finding and they have applied the law correctly, their decision is one of fact which will not be disturbed; but if the case stated contains anything *ex facie* which is bad law and which bears upon the determination, the erroneous determination will be reversed. Even without any such misconception appearing on the face of the case stated, the determination of the Commissioners will be reversed if there is no evidence to support it, or, in other words, the case is one in which the true and only reasonable conclusion contradicts the determination.

Conclusion

Once the Appeal Commissioners have given their decision on an appeal and the assessment has been reduced or increased, discharged or confirmed, the assessment becomes final and neither the determination of the Commissioners nor the assessment may be altered except by the Court. And, as has been seen, the Court will not alter the decision of the Commissioners if it is regarded as one of fact, so that the taxpayer has to abide by it.

It is therefore important that all primary facts which support the taxpayer's case are established to the satisfaction of the Commissioners so that they will appear in the case stated, should one be asked for. Failure to establish a primary fact may shut out the taxpayer from advancing in the High Court a contention for which that fact formed an essential basis; for only in exceptional circumstances will the Court remit a case to the Commissioners for further facts to be found, and then, as a rule, only for the finding of a secondary or inferential fact, and not a primary fact which, by the failure of the taxpayer, was not brought out (*R. A. Bird & Co v. C.I.R.* (12 T.C. 785)). On the other hand, provided the facts are established, failure to put forward a contention of law before the Commissioners will not prevent the taxpayer from advancing it in the High Court, which will take cognizance of any question of law arising on the case. All of which may be summed up by saying that in tax appeals, as in other appeals, careful preparation of the case is all important.

What the Business Man Expects of the Practising Professional Accountant

by SIR DONALD PERROTT, K.B.E.

Scope of Paper

THE title of this paper includes the words 'business man', a description which is not capable of precise definition. Probably the most succinct definition of business is 'habitual occupation, profession, trade; serious work'. It was not the intention that I should range far and wide. I propose, therefore, to limit the scope of my observations by excluding the general run of retail traders, professions and vocations; I am restricting myself to industry and commerce in the normally accepted terms. Much of what I have to say would be largely applicable to the excluded classes.

2. No one can doubt that over the past fifty years the accountancy profession has made a remarkable advance in status and in the range of its activities. Even so, I feel the profession as a whole has a good deal more to offer the business man than is generally offered at present and moreover the business man is frequently unaware of the services he could command from the practising accountant. The theme of my paper is directed, therefore, to taking stock of the present position, to suggesting means by which some firms of accountants might raise their sights and to suggesting the means by which some business men might learn how they could utilize services which ought to be available to them to improve the efficiency of their businesses.

Historical Background

3. To get a perspective one needs to take a short look back in history. Up to the First World War the accounting profession was largely confined to audits, bankruptcies and liquidations. The introduction of excess profits duty and concurrently the control of Government contracts brought the account-

ant into general public prominence for the first time. The slump of the early 1920s, the consequent crashes, reconstructions and financial salvage operations gave the profession a further boost. Our family businesses had not bred sufficient good successors to carry on in troubled times and had to look outside the family to strengthen their boards. Financial wisdom was the usual missing link. A competent

practising accountant was often the answer. The natural development between the wars was for companies to consolidate. In those companies which had gone through the fire with or without a professional accountant on their board much may have been done to establish at least an adequate internal accounting organization, often headed by a professional accountant introduced by auditors. The incidence of the Second World War gave another tremendous fillip to the accounting profession. Taxation was again penal. The Inland Revenue was much better organized and better trained. The Government with its cost plus, target cost and maximum cost forms of contract had more adequate means of control. (In part due to the gratuitous services to Government of many leading professional accountants.) The result of these activities was to

force up accounting standards. All this is well known and I am only repeating this potted history because it is at this point of time immediately after the end of the Second World War that I feel that only part of the profession – rather than the whole – surged forward on the tide of opportunity for improving the services to business men.

4. The First World War did not vary substantially the pattern of manufacture and trade. The economic policies of that post-war era may have contributed to a world recession but it did not of itself create a new format. The Second World War was just the converse. There was the growing nationalism, particularly of under-developed countries which wished to govern themselves and produce their own manufactures. There were different align-



Sir Donald Perrott

ments of countries and groups of countries; a bewildering variety of change. All brought challenging financial economic problems to practically every industry, trade and commercial venture. For quite a proportion of British companies I am sure this essential difference has not been wholly grasped. Just think of the number of boards you know reasonably well. Since 1946 how many have done a heart-searching appraisal of their companies (including the composition and strength of their boards)? Some have partly done it or done it lukewarmly and many have not done it at all. I would suggest that the number of companies who have faced up squarely to the realities are proportionately low although I would accept that the larger companies have been, in the main, rather more prone to do so than the smaller companies. Of the practising accountants closely associated with industry my own experience prompts me to say that quite a proportion of the members of The Institute of Chartered Accountants have not attuned themselves fully to the differences.

5. Against this changing scene I would suggest the profession has more to sell to the business man than it has, in general, sold. Even a moderate sized firm of practising accountants has a wide range of clients covering a variety of different trades and manufactures. Such a firm, if it has partners with breadth of view, must absorb over the years standards, yardsticks, criteria, on which to judge the general efficiency of a particular business, i.e. its strengths and its weaknesses. On the other hand there are quite a number of companies in the United Kingdom with no particular financial or accounting expertise on the board. They have an accountant and staff but their functions are often routine. The managing director more often than not has come up the technical ladder and not infrequently suspects accountants rather than welcomes them. In many of the middle and smaller companies, there is thus a gap which has not been bridged. Is not the profession at fault? Surely the Institute could do more to make known the wider range of services their members could offer without resorting to individual advertising.

6. My theme then is that the practising accountant has an enhanced role to play in the modern economic world and I would ask each firm of accountants to pause and consider whether they have reorientated their minds to the change and have organized their firms to meet it.

Increased Complexity of Industry

7. It is accepted that commerce, trade and industry has become, and is becoming, more and more complex. It is no longer practicable for the director, and particularly a managing director, to have more than a superficial knowledge of several of the functions for which he is responsible. Assuming he recognizes his shortcomings he has three courses open to him. He can provide specialist staff within

his own organization, supplement this staff by outside advisers or rely, in certain fields, on outside advisers only. You will note the word 'recognizes'. Some directors and managing directors have inquiring minds. Such individuals are always looking for efficiency in all corners of their business activities. Unless they are too egotistical they can normally be relied upon to seek out and provide the necessary services to ensure that the best results are attained. But there are many who have not an inquiring mind who are content to jog along. Some will accept improvements if they come to notice. At the other end of the scale, some are probably irredeemable.

8. From my personal experience and with due regard to the law of averages, I see no reason to doubt that firms of accountants follow the same sort of pattern. There will be all gradations – the modern progressive firm – the pedestrian firm – the poor firm. Most firms of professional accountants endeavour to put up an impressive front concerning their professional capabilities. How are they to be judged? And how can they judge themselves? They see little of the detailed work of other professional firms. Many of their clients have no basis to measure the relative quality of the service they give.

9. I should like to indulge in the impertinence of an outsider to analyse the state and status of the profession – how I would like to see it develop – because if it develops that way I feel the business man will be able to get an improving service from a greater number of firms.

Comments on Services that can be Provided

10. Let us consider some of the services a competent firm can provide for its clients under a series of headings.

Auditing

Taxation

Management Accounting (to include Costing, Budgetary Control and Systems)

Finance

Auditing

11. The form of the auditor's report is laid down by the Companies Act but the detailed work which he has to do is left to him. There are the modern and the more old-fashioned techniques. To me, modern means essentially auditing in depth rather than sampling over a wide front: satisfying oneself that the internal financial controls are not only effective in concept but effective in application.

12. I have in mind particularly that detailed checking of any selected transaction is carried through all stages. I see little merit in sampling on a wide front. The real object of the audit is to report that the accounts show a true and fair view of the company's operations. One essential is that stock and work in progress is valued on a commercial basis. The Institute have recently issued their treatise on this

subject.¹ For the business man this is a most useful guide. One regrets that it was not issued several years ago. One regrets also that there are too many alternative bases. This is a defect which will no doubt be remedied in time. It does highlight the necessity for the auditor to satisfy himself on the general basis of valuation and that slow moving and obsolete stocks are properly valued. I would expect any competent auditor to take a physical look at the stock in hand, the stores, the receiving bay, the dispatch bay and similar places, to talk to the man in charge and to satisfy himself that the basis of valuation is reasonable. Today, one would not expect an auditor to accept stock and work in progress certificates from managing directors or their equivalents without applying adequate tests. The auditor who would rely on the *Kingston Cotton Mills* case as a defence for his inactivity is of very little use to the business community.

Taxation

13. This is a specialist subject but there are two distinct aspects. One is merely preparing computations from established facts and defending those computations in negotiation with the Inland Revenue. The odd coup is rare. One practitioner can present his case better than another. My experience is that the best service is based on up-to-date knowledge of income tax law and practice. What is far more important is the direction of affairs which will in time become facts. There is nothing unworthy about not wanting to pay the maximum amount of income tax and profits tax, and you will remember that Lord Tomlin in *Westminster (Duke of) v. C.I.R.* ([1935] 19 T.C. at page 490, 520, H.L.)² said:

'Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax.'

As an ex-Revenue official I have often in my time had to point out to a taxpayer, a company or its accountant, that if they had had a little foresight or better advice they could have avoided the very inequity of which they were complaining. They had so arranged their affairs to their greatest possible disadvantage.

14. A company with ramifications, particularly one with a variety of subsidiaries at home or overseas, must be most forward-looking concerning tax problems. Should one of the subsidiary companies cease trading? If so from what date? What is to

happen to residual assets? Should an overseas selling agency be converted into a company? The policy considerations need to be tested out not only against finance but also the taxation consequences at home and overseas. This assessment of future liabilities is a service too few firms of accountants give.

15. I had a relatively small problem recently. The auditors of the company concerned had provided its taxation service. In one of the larger cities two factories covered the work of three subsidiaries (one of which had an agency overseas). This was untidy organizationally. Rationalization would save money. One factory could provide adequate capacity and the other was to be closed. What inter-company adjustments were desirable having regard to taxation liabilities? Approximate anticipated results were available and known to be available for the period since the last accounting date for the group. A good experienced young chartered accountant could have played about with all the likely permutations within a matter of hours. The attitude of the accountants concerned was, 'Don't close the works until we have worked things out.' Would you not look elsewhere for your service?

16. This is a field in which the business man could and should get first-class service. Looking back over my years in various walks of life, I would say that while the first aspect I have mentioned (established facts) is normally well enough done the second stage (taxation planning) is not. The reasons for this are not easy to elucidate. Taxation is much too complex for the average managing director but need it be quite the mystery that so many accounting firms try to make out? If the managing director knew just a little more about tax and the importance of directing affairs with tax as one of the considerations in mind, he would be much readier to bring his accountants into the picture. In so doing they would get an added insight into the future developments of the business.

Costing

17. Most companies have some form of costings but I have come across quite a number of cases where the method used is not developed fully to meet the requirements of the business.

There are two points in particular which accountants do not seem to take into account adequately in introducing systems:

- (a) to see that heads of departments are given a breakdown of the overheads charged to them in such a form that they can offer intelligent criticism. This is a most fruitful source of economy;
- (b) to ensure that a company having to quote at cut prices has a system which shows up clearly what margins are available over production costs as a contribution towards overheads.

18. Where the production consists of standard products with standard costing in operation no great

¹ Recommendation No. 22 - Treatment of Stock-in-trade and Work in Progress in Financial Accounts - reproduced in *The Accountant* of November 19th, 1960.

² Also 14 A.T.C. 77 at page 85.

difficulties should arise, provided the standards are kept under review and variations are marginal. But the moment you come to a mixed business of standard products on line production on the one hand, batch production on another, and 'one-offs', some specialities have to be brought into the system to arrive at a reasonable basis of costing. This could be particularly true for instance of the works design and drawing office. I came across a case recently where these had been charged as a general overhead and not on a job costing basis. The result in each case was that prices quoted for special requirements were too low and the contracts were carried out at a substantial loss. Correspondingly, the standard products, the bread and butter of the concern, were being costed out of production. In the results the loss to this company with a turnover between £2 million and £3 million per annum was of the order of £70,000 to £80,000 per annum.

19. Then there are the over-elaborate systems. In another company a system introduced by one of our more notable firms a long time ago had gone on and on employing a small army of clerks to produce out-of-date figures. A modern system to produce 'target costs' would have been a simple answer.

20. How did these unfortunate positions develop? Primarily I think the answer is the managing directors knew no better: they had no education in financial control. They had no particular love for accountants whom they dubbed 'the auditors'.

Budgetary control

21. This is a fashion and rightly so. But fashions have a habit of running to extremes. I have seen several of these systems installed on too elaborate lines in the initial stages. The systems produced had not, however, gone the stage further in seeing that the mass of figures produced was so presented to ensure that the members of the management had their notice drawn specifically to those aspects which needed their special attention. The introducers of the systems had not put themselves in the seats of the senior people they were trying to serve. The result was a form of presentation which was not really effective.

22. On first introduction, a budgetary control system should be the simplest that can be devised. When it is launched and understood by the various levels of management it is reasonable and sensible to build it up empirically. My experience is that too much is attempted at the first stage; a mass of indigestible paper-work emerges, and is ignored. An essential ingredient of a budgetary control system is that the internal accountants producing the information should be trained to highlight significant facts, trends and items appropriate to the different levels of management. Far too many sets of figures float around the offices of companies too ill-prepared to be of use.

Systems generally

23. This heading can extend from internal controls to ordinary office methods dealing with cash, stocks, stores, storekeeping, use of machines of all kinds including computers, checking methods, and so on. The established active accounting firm should naturally be able to take this in its stride. I will illustrate this point with a recent personal experience. A golfing friend of mine running a couple of engineering companies left me in no doubt what he thought of accountants - 'the end'. Recently, and in some obscure way, one of the partners of a well-known firm of accountants came his way. This new arrival has changed his whole outlook. He regards him as a friend - almost an *ex officio* director. By applying a few broad principles concerning the movements of materials on the shop floor, the consequential remodelling of the shop floor layout, he has cut his costs (until then somewhat marginal) to produce really competitive results. He has changed his whole attitude to the profession. In what way did the earlier firm of accountants fail?

24. One finds that the management consultant is increasingly taking charge of this field and in the process recruiting a fair proportion of the better young chartered accountants to do the work. For one thing, these firms are generally less pedantic. The management consultant has to put his case over and in so doing he seems to be much more prone to weigh advantages of the cost of change in real monetary terms. Yet the combined use of both auditors and management consultants must be expensive. If both organizations are employed to do the same task then there must be duplication of the usual preparatory work and analyses and consequent increase of expenditure.

Finance

25. There are several aspects of finance, the share and loan structure including the raising of finance, the best utilization of surplus cash, the provision for taxation by way of tax certificates, acquisition of business assets, the cost of working capital, excess capacity, the estimating for very large capital projects, and so on.

26. It is well known that estimates of capital expenditure on larger projects are usually proved inadequate in amount. The reasons are various. The practising accountant who sees many such projects and has the advantage of seeing the out-turn against the original estimate is particularly well placed as a result of such experience to criticize new schemes. He should recognize contingencies and items of expenditure that have not been taken into account and be able to offer constructive criticism not only on the capital estimate but on the revenue estimates as well.

27. It is important that the costs of research and development are fully recorded and wherever possible

recovered over such a period as may be predetermined. There is far too great a tendency to lose such expenditure in general overheads.

28. The advice and assistance given by some firms deserves the highest praise but from experience I can say that this is by no means common.

General Observations

29. In this paper if I have devoted a disproportionate part of effort to what the business man should expect as against what he expects, I hope I may be excused. From these notes the reader will deduce that I want the profession to raise their sights. I accept that small firms cannot provide all the services their clients need. Like the general medical practitioner they should, however, keep abreast of modern techniques and be in a position to introduce an acceptable specialist when the need arises.

30. We have reached a stage in the affairs of trade and industry in this nation when it is recognized that members of boards are no longer major shareholders. They are managers, earning remuneration for their services as trustees for the shareholders and their workpeople. The shareholders and the workpeople have no real means of assessing the merits of their boards. The audit does no more than certify that the balance sheet is a true and fair balance sheet; whether the company has been well run or not, whether there is concealed behind the profits earned (or losses sustained) negligence, bad judgment or even incompetence will not necessarily be disclosed. We have all seen companies where the results could have been greatly improved by a change of management but the shareholders have no complaint because they have no knowledge. I think we shall gradually move to a position where a more positive responsibility to the shareholders will be required. We have seen in the last fifteen years the transition from the certification of the balance sheet with hidden reserves and no responsibility for the profit and loss account to the 'true and fair' view and placing some responsibility on the auditor for the profit and loss account figures and disclosures. I am fairly confident that each subsequent revision of the Companies Act will move progressively in protecting the shareholder. This could well mean an extension of the present scope of auditors. It might well be their obligation to comment to the shareholders on adverse items and developments, much on the lines the Comptroller and Auditor-General does to Government. I recognize that this prospect will horrify most of trade and industry, and a good many firms of accountants, but I think it may come in some form or other.

31. Speaking for myself I regard the modern first-class firm of chartered accountants as an essential tool of management covering the whole range of subject heads I have mentioned. For any given moderate-sized company the amount of external aid will depend on the strength of the internal finance

and accounting organization. A good guiding principle is to staff the internal machine with no more qualified staff than is necessary to meet a company's average load, relying in emergencies on the external accountants who have much more flexible resources. It is not good for the internal morale of an industrial or trading concern to have an excess of internal accounting resources. It follows that for a given company I would wish to look to one firm of accountants to give me a comprehensive range of services including the statutory audit obligations. Moreover, I would choose the firm who could give me the best general service and advice. In assessing competence I would rank the audit function as a lesser consideration.

32. How do we bridge the gap I mentioned earlier? First of all, let me say that I have read a fair amount of current accounting literature. Most of the articles are very technical and (I hope this is not taken unkindly) perhaps intentionally, demonstrate the brilliance of the analytical mind of the writer. What I should like the Institute to do - I assume if any one firm did it they would be black-balled - is to provide a manual, brochure or some form of book or document which will let the manager, director, or higher executive know in non-technical, non-accounting language something of the salient points to be watched where his external accountants could help. Is this too much to ask? The Institute has had the problem of stock and work in progress on its plate for years. With that relief perhaps they could now take on the task I suggest. Secondly, I think partners do not see enough of the executive and non-executive members of boards. Very few concerns are unwilling to pay for real service. The old 'ticking audit' was looked on by many as an unavoidable expense. If firms of accountants could get closer to management on a variety of other subjects putting audit in the background, and demonstrate their ability they would I am sure be welcomed with open arms.

33. I noticed the President, in his address to the annual meeting in May, commented on fees. I would add one observation. The business man will pay according to the value of the service he receives.

34. I have devoted relatively little thought to the training of accountants and the qualifying examinations they are required to pass. I have a feeling that the details of the system at least need some form of modernization. The Institute in setting its examination and training requirements devotes itself mainly to the needs of the future practising accountant.

35. Yet I am informed that over 50 per cent of the members of the Institute are no longer practising. The bulk are to be found in trade and industry. Under current conditions when one recruits from the profession to industry or commerce, one has to accept the limitations of the candidate. It is, I think, an indictment of the Institute that you would prefer initially to use such a man on audit and the compilation of accounts rather than industrial and

management accounting. If over half of the successful candidates are to leave the profession for industry, should not the Institute make provision accordingly?

Points for Consideration by the Course

36. In the course of your deliberations in your discussion groups I would suggest you direct your attention to the following points:

- (a) How can practising firms of accountants put over to business men the concept that audit, although a statutory obligation, is only one of the services they can render?
- (b) How can the practising accountant bring to the notice of the business man the wide range of services available for promoting the efficiency of his business?
- (c) How can the Institute assist the accountant with the small practice and limited resources to

participate in the modern development of the profession?

- (d) Is not one answer to (a) and (b) that the Institute, through the medium of its Council, should produce and produce quickly a brochure or other form of document setting out the services the profession can provide?
- (e) Should not the Institute advise practising firms who are not sufficiently large to provide all services to collaborate with other firms and organizations to provide those services?
- (f) Has not a stage been reached where the training and examination system should be modified in the knowledge that half the successful candidates will go to trade and industry?
- (g) Should not the Institute run a summer school for managing directors, directors and chief executives with the object of demonstrating the services its members can offer?

Weekly Notes

Institute's New Council Member

MR RALPH GORDON SLACK, M.A., F.C.A., a partner in the firm of Carlill, Burkinshaw & Ferguson, Chartered Accountants, of Hull, was elected a member of the Council of The Institute of Chartered Accountants in England and Wales held on November 1st (reported elsewhere in this issue).

Born in 1908, Mr Slack was educated at The Leys School and Trinity College, Cambridge. He subsequently served his articles with Mr W. C.

Burkinshaw, of Carlill, Burkinshaw & Ferguson, and was admitted an Associate of the Institute in 1935, becoming a partner in his firm four years later. He served throughout the Second World War in the Royal Artillery, attaining the rank of major.

In 1955, Mr Slack was elected to membership of the Committee of the Hull, Yorkshire and Lincolnshire Society of Chartered Accountants, and this year he was elected President of the Society.

Outside his professional interests, Mr Slack is a keen sportsman and golfer, and has played hockey to County trial standard. He is married with two children.

New Chartered Accountant M.P.

MR FRANK HENRY TAYLOR, F.C.A., senior partner in the firm of Frank H. Taylor & Co, Chartered Accountants, of London, was elected Conservative Member of Parliament at the Manchester (Moss Side) by-election last Tuesday, by a majority of 3,086 votes.

Mr Taylor, who is 54 years of age, unsuccessfully contested elections at Newcastle under Lyme in 1955 and Chorley in 1959.

War on Double Taxation

THE fourth report¹ of the Fiscal Committee of the Organization for European Economic Co-operation (now the Organization for Economic Co-operation and Development) deals, like its three predecessors, with the elimination of double taxation. It reviews the measures taken by member countries since the previous report to implement the recommendations of the Council on this topic. It also contains six new articles of a model double-tax convention on which agreement has now been reached and reviews the work that still remains to be done to complete the convention.

No less than twenty-one bilateral negotiations are now proceeding between member countries, seven for the revision of existing conventions, fourteen for new ones. The report rightly points out that the co-ordination of bilateral conventions will guarantee to taxpayers more stable treatment and will more effectively eliminate double taxation, with a consequent favourable effect on the international movement of goods, services, capital and persons.

¹ H.M.S.O. 8s net.

The six new articles for the draft convention deal with the following difficult topics: the taxation of dividends, of interest, and of royalties, methods for the avoidance of double taxation, and a mutual agreement procedure. The articles are followed by an exhaustive commentary, not only helpful in relation to the draft, but also illuminating for all who wish to understand this complicated subject.

Living Standards 1957-59

NEW light on living standards in the affluent society is provided by the recent *Family Expenditure Survey*¹, prepared by the Social Survey of the Ministry of Labour, which uses the information therein to assess the relevance to current conditions of the index of retail prices, popularly known as the cost-of-living index. The survey data were collected from a sample of some 4,800 households distributed throughout the country; all members over 16 years of age in the household keeping a record of expenditure during a fortnight in each of the years 1957-59 inclusive.

Although the response rate of households to keep these fortnightly budgets was about the same as in the much larger 1953-54 survey which collected nearly 13,000 budgets, i.e. about 60 per cent, the latest sample does not seem to be as representative as the committee would have liked. Whereas in its report on the earlier survey it was satisfied that the results faithfully reflected the expenditure pattern of some 90 per cent of all households, the current report comments on the need to take account of the variation in response by different types of household and ways of amending the results to meet this need are under review. In other words, the latest sample is not as random as could be desired due to the low response rate among particular types of household.

Similar doubts regarding the validity of the data are expressed in the report; significant variations between the average expenditure in the first and second weeks for a wide range of commodities have been noted. And, just as in 1953-54, there is ample evidence that expenditure on alcohol is understated—in this case to the tune of 50 per cent. Expenditure on tobacco has also been understated, but not, it appears, to the same extent as alcohol, while the same defect is apparent in the recorded expenditure on confectionery and ice-cream, largely accounted for by children of the households.

The analysis of household expenditure is extremely detailed and the households themselves are classified according to the income of their heads, by region and by their composition. In particular, details are given separately for households dependent in the main on the State pension and similar assistance. The upward drift of money incomes during the past decade is apparent from the classification in 1959 of households

with incomes up to £30 per week and those above this level; the figure for 1958 is £25.

The expenditure pattern is exactly that which is to be expected in the modern advanced economy, the necessities of life absorbing a declining proportion of income, while more and more is devoted to luxuries and semi-luxuries. For example, one-third of expenditure is on food, while housing costs account for just over 9 per cent of total expenditure. In contrast, tobacco and alcohol purchases absorb 10 per cent, a figure exceeded slightly by the outlays on clothing and footwear. Just over 8 per cent of all expenditure of the average household is accounted for by transport and vehicles. These bare figures provide an eloquent commentary on our society.

Whither Bank Rate?

THE latest reduction by half a point in Bank rate to 6 per cent had been expected for some time past and had been fully discounted by the stock markets. At its present level, Bank rate is just double the ruling rates in the United States and Western Germany, and three times the Swiss rate. Unless the prospects for sterling are adjudged by overseas opinion to be so dismal that a further devaluation is inevitable, the existing differential between London and the other leading financial centres must continue to attract some 'hot' money to London. In October it is officially estimated that over £100 million of this money must have come into London, the largest inflow for any month since the Conservative administration revived the use of Bank rate almost exactly ten years ago.

The logic of the latest reduction in such circumstances is impeccable and indeed, if this were the only problem, the reduction could well have been greater. It can hardly be asserted that the present high interest rate structure is in the best interests of the British economy. Much has been read into the recent statement by the new Governor of the Bank of England, Lord Cromer, that the whole burden of adjustment within the economy should not be left entirely to monetary policy. This is not disputed; unfortunately alternative policies have yet to be formulated. The need is twofold. First, exports must be increased by at least 10 per cent. Second, some means of increasing the mobility of resources between contracting and expanding sectors of the economy must be found.

Against these apparently insuperable problems much of the recent incantations over the new planning policy is quite irrelevant. High interest rates and credit restrictions may be imperfect methods of economic stabilization, but until new methods have been devised they will have to serve. For this reason the renewed optimism in some sections of the Press about the future of Bank rate seems misplaced, just as the Government's agreement to implement a wage award after April 1st next has been construed as

¹ *Family Expenditure Survey*. Report for 1957-59. H.M.S.O. 12s 6d net.

marking the end of the present wage pause. The object of the present deflationary policy is to avoid the resumption of the roundabout of wages and prices. Foreign opinion recognizes that the existing policies provide the authorities with an opportunity for formulating and applying new policies to increase our economic efficiency. They are not, as the public seems to believe, substitutes for a properly co-ordinated economic policy. Unless public opinion can be persuaded of these elementary economic facts, progress at home is likely to be slow and, for some sections of the community, painful. The picture remains as depressing as ever it was, despite the few chinks of light which are beginning to show.

Planned Investment

A YEAR ago, as evidence of the new planning approach to national economic matters, the Government published a new White Paper stating its policy towards the capital investment programmes of the nationalized industries, public corporations and the local authorities. The plans for 1962-63 have now been published¹ and the most significant fact to emerge is the intention of the Government to keep a firm hand on the rate of investment in the public sector. The object of the plan is to 'bring the rate of increase of total expenditure into a better relationship with prospective resources', due care being taken, it appears, not to disrupt work in progress while, in the case of the nationalized industries, new expenditure will be avoided where this can be done without damage to the central objectives of attaining their financial targets and providing essential supplies and services'.

These vague aspirations apart, the White Paper reveals that the total of public investment will rise in 1962-63 to £1,840 million, an increase in real terms on the previous year of £85 million. The main item on these allocations is still the Electricity supply with £397 million, which compares with £18 million allotted to the Atomic Energy Authority and £177 million to the British Transport Commission. Together, the nationalized industries absorb almost half the capital allocated; the balance is accounted for by approved projects in the public services, of which housing with £272 million is the largest item, and education with £169 million the next. It will be interesting to see whether the coming year will witness a repetition of last year's experience when the realized capital outlays fell short of the projected sums. In part this was due to the usual uncertainties which are inherent in this type of planning forecast, but the White Paper stresses the heavy load upon the building and civil engineering industries which prevented work proceeding as quickly and as smoothly as had been planned.

The Government recognized quite early this year that projected expenditure was showing signs of an

'unduly rapid increase' which would have increased the strain on resources and delayed completions, apart from the undoubted twist this situation could have given to the inflationary spiral. The Government's determination to hold the line is reflected in its directives to local authorities who have been told that the approval of new starts on housing projects will be reduced below recent levels, due to the lengthening of construction periods evident since 1960 and the rise in tender prices. Furthermore, applications for loan sanctions in respect of water and sewerage projects not regarded as immediately necessary, as well as those for swimming baths and other recreation facilities, will not be granted for the time being. The White Paper sums up the Government's policy towards the local authorities in the statement that the latter have been asked to review their capital projects with a view to postponing them wherever possible.

Bank Booklet on E.C.M.

THE process of explaining the purpose and significance of the European Economic Community and the European Common Market is bound to be a long one. Despite the amount of publicity these have had over the last two years or so, and notably since early August of this year when the United Kingdom gave notice that it would like to negotiate for membership, there is still a wide area of only partial knowledge about even their broad outline. This limited knowledge extends to the business community.

It is therefore of interest that the Westminster Bank has issued a booklet called *The Common Market and the United Kingdom* explaining the European Economic Community and how the United Kingdom will be affected by entry into the European Common Market. These sections are necessarily brief and highly selective but they touch on the main issues and in some six pages each they give a good general, readable introduction to this highly complex subject. For those who wish a quick explanatory summary of what this is all about, the booklet is to be highly recommended. The bank advertises its own services in a concluding third section.

Engineering Orders in Britain and the United States

FIGURES recently published by the Board of Trade show that new orders received by the engineering industries in August were 15 per cent below the volume of August 1960. Orders from the home market fell by 19 per cent, but the reduction in export orders was only 4 per cent. Too much should not, however, be read into the figures for one month. At the same time, the results of the twelfth F.B.I. inquiry into industrial trends and the Board of Trade capital expenditure inquiry suggest that whilst

¹ *Public Investment in Great Britain*. Cmnd. 1522. H.M.S.O. 2s 3d net.

capital expenditure may continue to rise for a short time, it may well level off early in the New Year and possibly turn downwards thereafter. Trends in output of consumer goods produced by the engineering industries appear rather indeterminate, although not much information is yet available on output since July.

By contrast, the September issue of *Survey of Current Business* presents a favourable picture of trends in the United States. There, the business advance was extended in the late summer with private investment and Government outlays providing the main stimulus to the rise. Consumer purchasing of goods has held up well but is not yet a strong expansionary force. Expenditure on plant and equip-

ment, which had shown a decided falling-off in the early part of the year, is now rising again and a moderate rise is confidently forecast during the current half of the year. This improvement has been reflected in the rising trend of new machinery orders and production in recent months. The continued rise in industrial production, which is now at record levels, encompassed a wide variety of consumer goods. In the automobile industry, production is now increasing after the summer cutbacks and this rise has begun some weeks earlier than usual. Producers of home appliances and radio and television receivers have stepped up production quite sharply in recent months, although retail sales of these goods have, as yet, shown only a modest increase.

This is My Life . . .

by An Industrious Accountant

CHAPTER 97

THE assistant on our audit, a pleasant young A.C.A. who only qualified last year, called in this week to say an unexpected good-bye. He's been offered a fine commercial job in darkest Africa, departing almost immediately on a three-year tour. We've been good friends so I was really sorry to hear he was going.

He's an only son who's always led a sheltered life, unfledged and inexperienced, but a sudden stirring of wanderlust unsettled him. He 'yearned beyond the skyline where strange roads go down'. He scanned the 'small-ad' columns and answered an advertisement couched in glowing phrases; he was accepted on the spot at the interview. But somehow he hadn't obtained much specific detail, it seemed, only generalities; now he was wondering what lay ahead. I felt rather helpless. In spite of the far-flung roll of members of the profession, from the poles to the equator, I personally haven't much knowledge of working conditions for accountants going abroad. Even our versatile district society has never included in its lecture programme a talk by a returned globe-trotter; our local outlook has been rather restricted, which seems a pity.

'Nonsense,' he said buoyantly. 'The High Commissioner's office sent me bags of leaflets on trade statistics and currency and local history; I'll be all right. Of course, it's rather isolated, I gather, maybe a little lonely, but I'll soon get used to it. Maybe do some good to the natives and so on, great experience, you know.' He's one of these slim, fair-haired boys with a touch of idealism in his glance, like a young knight-errant from Malory's stories. I hoped the

coming three years wouldn't bring disillusionment or worse; the picture formed before me. . . .

The lush green jungle, darkened with the incessant downpour of the monsoon ('unusual scenic beauty', in the words of the ad.) surrounded his primitive bungalow ('contemporary housing provided'). Inside he sat at the rickety cane table ('simply but adequately furnished'), unshaven, haggard, dressed only in grimy shorts ('warm tropical climate an attraction'), shivering with malaria. Beside him crouched a hideously-painted, wild-eyed witch-doctor, heating an unholy brew over the smoky fire ('free medical attention readily available') and muttering 'heap good ju-ju'.

On the verandah a dusky Delilah, sarong-swathed, seductive, stood watching the pair; she crooned softly a melody about returning to Bali-hai, bwatwe ('usual amenities provided'). In the compound outside the ebon warriors danced tumultuously ('nativ friendly'), a riot of ostrich plumes and assegais and shrill cries, around a misshapen pot-bellied idol ('picturesque local colour'). The tom-toms drummed ceaselessly, maddeningly, and the sick boy stretched a claw-like hand to the gourd of firewater ('salary-scale permits comfortable living standard plus ample margin for savings'). *The Accountant* on the table lay open at an article headed: 'The profession's problem . . . should we decimalize?' and his lips writhed back in a maniacal cackle of laughter.

The scene faded. It was time it did; my forehead was bedewed with beads of perspiration. Clearly my doomed friend would never return from the brooding green hell of the West Coast to enjoy his hard-won leisure ('three months' paid holiday leave on completion of tour').

He didn't seem worried. In fact, he was smiling meditatively. 'There's probably a daily helicopter service from the new airport to our dispatch-yard,' he said. *The Times* will be only a day late . . . liquor dirt-cheap . . . big-game shooting from the windows . . . air-conditioned. . . . At this stage I was almost planning to join him myself.

Reviews

The Quantum of Damages (Personal Injuries)

Second edition, Volume 1 by DAVID A. McI. KEMP, B.A., Barrister-at-law, MARGARET SYLVIA KEMP, B.A., Solicitor, and C. J. McOUSTRA, M.A., Barrister-at-law. (Sweet & Maxwell Ltd, London. £3 3s net.)

The authors of this valuable, and in a sense unique, work have shown the most commendable enterprise in treating so comprehensively the problem of assessing in money terms the loss suffered by victims of the neglect or default of others. That a whole volume is devoted to personal injuries, not to mention the enormous number of cases with which it deals, shows that this particular field in the domain of compensation claims is an exceedingly rich one. Yet, indeed, this must be so, because the kinds of injury, and the circumstances of the injured, are of infinite variation. The victim of an accident who is offered a sum of money in compensation is often in a dilemma: if he goes on and sues for more, he may find himself mulcted in costs, and get even less. On the other hand he does not know whether the offer is reasonable. This book will help him, and his advisers.

Much of the uncertainty surrounding injury compensation claims arises from the difficulty of calculating the effect on the victim's earning powers, and the subsidiary repercussions of income tax where earnings are replaced by an immediate lump sum. The kind of calculation which has to be made is one which is peculiarly within the province of professional accountants. They will also be interested to read in the book the authors' suggestions in relation to *Gourley* principle.

Paget's Law of Banking

Sixth edition by MAURICE MEGRAH, M.COM.(LOND.), LL.B., F.I.B. (Butterworth & Co (Publishers) Ltd, London. 57s 6d net.)

Paget has for so long been the standard work on the law of banking that its users, especially those not intimately concerned with the subject, take it very much for granted. This new edition, however, the first for thirteen years, does deserve notice. Mr Megrah has of course incorporated changes in the law, including notably the effect of the Cheques Act; he has added a valuable chapter on a topic on which he is a recognized authority—bankers' commercial credits; and he has substantially reorganized the arrangement of the whole material of the book. The new edition is a clear improvement on its predecessor.

How long an established authority can be carried on by new editions is a question to which no general answer can be given. Mr Megrah has here preserved

Paget's original line of thought, and in his foreword he forestalls criticism of his retention of matter which some might think now redundant; he suggests that such a judgment may prove premature. *Paget* in this sixth edition can face the world confidently; but even as it appears, banking is changing again. Credit transfers are being widely advertised, and if their use develops at all extensively they may come to rival the cheque as a means of money transfer. It might be better then if a completely new book were written, and there are few as well qualified to write it as the editor of this new edition.

Resources for the Third Five-Year Plan Inflation in a Developing Economy

by SHR S. THIRUMALAI. (Indian Merchants' Chamber Economic Research and Training Foundation, Bombay. Rs7 and Rs6 respectively.)

Her demographic situation apart, India's major problem in the course of her economic expansion is to ensure growth without inflation. In common with other countries in all stages of development, rapid industrial growth has brought in its train serious difficulties in the form of rising prices and a heavy deficit on her balance of payments. Official efforts to restrain the pace of the inflation have not proved successful and an effective policy may only be possible if India's present democratic system of economic control were to be replaced by a completely controlled economy on totalitarian lines. For some, this particular cure may be worse than the sickness itself. These two monographs have been prepared by the research economist of the new foundation for economic research established by the Indian Merchants' Chamber as a contribution to discussion and formulation of public opinion on these vital issues. They are well designed to expound basic economic problems to the average business man.

RECENT PUBLICATIONS

THE STEEL INDUSTRY, 1939-1959, by Duncan Burn. xvi+728 pp. 9×6. 80s net. Cambridge University Press, London.

THE DIRECTORY OF OPPORTUNITIES FOR GRADUATES, 1962. Preface by Percy Livsey. 368 pp. 8½×5½. 8s 6d (9s 2d post free). Cornmarket Press Ltd, London.

'TAXATION' KEY TO INCOME TAX AND SURTAX, fifty-second edition, edited by Percy F. Hughes. 247 pp. 8½×5½. Paper covers. 12s 6d net (13s including postage). Taxation Publishing Co Ltd, London.

WHEN MY GIRL COMES HOME, by V. S. Pritchett. 251 pp. 7½×5. 16s net. Chatto & Windus, London.

A GUIDE TO PHOTOCOPYING IN THE OFFICE. A report produced by a Study Group of the Birmingham Branch of the Institute for the Organization and Methods Division. 44 pp. 10×6. Card covers. 10s. The Institute of Office Management, 56 Victoria Street, London SW1.

KNOW YOUR ACCOUNTS, by Marie Mellor, A.L.A.A. vii+183 pp. 8×5½. 12s 6d net. Macdonald & Co (Publishers) Ltd, London.

INCOME TAXES OUTSIDE THE COMMONWEALTH, Fifth supplement (March 1961). 794 pp. 10×7½. Paper covers. £1 15s net. H.M.S.O. London.

Finance and Commerce

Triplex

TRIPLEX HOLDINGS LTD, the safety glass company, provides a reprint with several interesting features. The accounts are in dual form to show figures for the company and for the group against one common narrative. The balance sheet itself is in skeleton form with the detail in separate notes. Most conspicuous in the original is the deep yellow background for the comparative figures which gives them a prominence greater than the current figures.

Included in the reprint is the statement on 'Sales, cost of sales and trading surplus', and the figures provided underline the gravity of the speech by the new chairman, Mr J. L. S. Steel, at the annual meeting. Mr Steel took over from Sir Graham Cunningham who has retired.

Mr Steel emphasized the close dependence of the company on the fortunes of the motor industry, which is far and away its biggest customer. He had, in his review with the accounts, pointed out that the safety glass company's sales turnover for the first quarter was approximately 10 per cent down on the corresponding period. Between October and December there was a 'sharp fall, reflecting the deepening recession in the motor-car industry, and sales in the month of December 1960 were only just over half the sales in December 1959'. There was a fairly steady improvement from January 1961 but the level still remained below last year.

Dividend Cut

On the current year, said Mr Steel, it was not easy to forecast with any accuracy. Car sales in the United Kingdom were bound to be affected by the credit squeeze and dearer hire-purchase and car sales were the 'decisive factor'. Efforts were being made to reduce manufacturing costs and, he said, 'the adjustment of our working force to conform with current demand should also help to reduce costs of manufacture or at any rate offset to some extent the rising costs of fuel and power'.

A substantial reduction in unofficial strikes in the car and component industries, said Mr Steel, would be a great help. There would be greater security of employment and the possibility of cost reductions, particularly for components. British cars would thus have a better chance of success in 'what is likely to become an increasingly competitive world market'.

Mr Steel assured shareholders that the cut in the dividend from 15 per cent to 12½ per cent was 'no reflection of the dividend 'pause'. With the 15 per cent's big cover it was disappointing, but the reduc-

tion was 'simply due to a careful consideration of the results for 1960-61 and an appraisal of the prospects for the current year'.

Columnar

IT is interesting to see a change to columnar form for a building society's accounts. This change has been made in the accounts of the Perpetual Investment Building Society for the year to April 30th, 1961; and so the balance sheet sets out 'Funds attracted by the society' and 'Members' funds' plus 'Due to depositors', giving a grand total of £104,420.

The next section shows the 'Use of funds by the society' followed by a deduction for 'Current liabilities'. Revenue and appropriation account shows income under the various headings - £7,055 - less 'Management expenses' as set out, leaving £4,753, less deposit interest £240, to give a surplus before tax of £4,513. Tax takes £1,387, and shareholders' interest £2,825. This leaves £301 'Net result for the year' plus a further £1,349 'Surplus on sale of freehold ground-rents'.

The figures look small compared with the multi-millions of the building society giants. The number of investors is only 243; depositors 51; and borrowed 69. But these small societies carry on year after year preserving their separate identity. This is Perpetual's 110th year.

Mr J. W. G. Cocke, M.A., T.D., F.C.A., the indefatigable secretary of the London and District Society of Chartered Accountants, who has been an active member of the board for some years, has been elected chairman.

Depreciation Charge

THE accounts of The Ketton Portland Cement Co Ltd for the year to June 30th, 1961, show the first effect of a change made this time in the basis of the calculation for depreciation. In past years depreciation has been calculated on a fixed rate per ton of cement produced. Last year's depreciation figure was £139,393 and this time, with dispatches of cement from the works at 326,506 tons against 337,854 tons, the charge for depreciation would presumably not have varied to any great extent. Actually, it is £102,163.

Mr H. W. Secker, the chairman, explains that 'to accord with more general practice the depreciation charge for the year under review has been based on percentage rates of depreciation applied to the various categories of assets on a "straight line" basis'.

Although this has resulted in a temporary decrease in the annual charge, it will be appreciated, he says, that on the completion of the fifth unit, there will be a considerable increase in the annual depreciation charge in future years.

Additions to the fixed assets in the past year amounted to £335,827 and this included £271,309 related to the installation of the fifth unit. Another £1 million will be needed for the completion of the unit.

TRIPLEX HOLDINGS LIMITED

BALANCE SHEET and CONSOLIDATED BALANCE SHEET
at 30th JUNE, 1961

	AT 30th JUNE, 1961	AT 30th JUNE, 1960
	TRIPLEX HOLDINGS LTD.	TRIPLEX HOLDINGS LTD.
	£	£
1. ISSUED CAPITAL	3,040,764	3,040,764
2. RESERVES	46,086	335,020
3. SURPLUS	1,602,547	1,375,384
4. CAPITAL, RESERVES AND SURPLUS ..	5,091,355	4,751,168
5. FUTURE INCOME TAX	447,000	772,775
6. INTEREST OF MINORITY SHAREHOLDERS	4,362	4,991
7. TOTAL FUNDS	£5,542,717	£5,528,934

8. CURRENT ASSETS	623,659	4,758,898
9. Less CURRENT LIABILITIES ..	244,567	1,897,578
10. WORKING CAPITAL	379,092	2,861,320
11. FIXED ASSETS	53,627	2,413,535
12. INVESTMENTS	227,439	243,414
13. DEFERRED REVENUE EXPENDITURE	—	28,253
14. INTEREST IN SUBSIDIARY COMPANIES	3,019,431	—
15. TOTAL NET ASSETS	£5,542,717	£5,528,934

These Funds were represented by:—

J. L. S. STEEL } Directors.
W. H. PILKINGTON }

TRIPLEX HOLDINGS LIMITED

FOR THE YEAR ENDED 30th JUNE, 1961

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1961	1960
	£	£
1. TRADING SURPLUS	945,556	1,707,008
2. ADD OTHER INCOME	61,180	37,539
3. SURPLUS BEFORE TAXATION ..	1,006,736	1,744,547
4. LESS TAXATION	547,364	945,500
5. SURPLUS AFTER TAXATION ..	459,372	799,047
6. ADD ATTRIBUTABLE TO MINORITY SHAREHOLDERS ..	629	(Less) 1,210
7. NET SURPLUS OF THE GROUP FOR THE YEAR	£460,001	£797,837
8. RETAINED IN SUBSIDIARY COMPANIES AVAILABLE IN TRIPLEX HOLDINGS LTD.	£26,703	£471,871
	£433,298	£325,966

9. APPROPRIATED as follows:—	£	£
(a) Preference Share Dividends (less Tax)	180	325,966
(b) Proposed Ordinary Dividend of 12½% (less Tax) (1960—15%) ..	232,658	279,190
10. SURPLUS FOR THE YEAR RETAINED	200,460	46,596
11. SURPLUS at 30th June, 1960, brought forward	357,359	313,852
Less Capitalised in Scrip Issue ..	—	3,089
12. SURPLUS carried forward at 30th June, 1961	£557,819	310,763

NOTE: GROUP SURPLUS carried forward at 30th June, 1961, comprised: Balance at 30th June, 1960 ..	1,375,384	1,101,907
Less Capitalised in Scrip Issue ..	—	244,990
Retained by Holding Company for year (Item 10 above)	1,375,384	856,917
Retained by Subsidiary Companies for year (Item 8 above)	200,460	46,596
	26,703	471,871
	£1,602,547	£1,375,384

TRIPLEX HOLDINGS LIMITED

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

Item	£	1961	£	£	1960	£
1. (i) TRADING SURPLUS is arrived at after providing for all expenses and charges including the following items:						
(a) Depreciation and amounts written off Fixed Assets		366,659			382,163	
(b) Transfer to Assets Replacement Reserve		86,104			73,239	
(c) Stamp Duty on increased Authorised Capital and Expenses of Scrip Issue written off		—			12,314	
(d) Earnings of Directors and Former Directors of Triplex Holdings Ltd. (See Note (ii) below)		15,175			16,780	
(e) Auditors' Remuneration		3,073			2,753	
(f) Allocation to Profit Sharing Funds		—			115,633	
(g) Contributions to Pension Fund and Life Insurance Scheme		76,501			77,469	
		<u>£547,512</u>			<u>£680,351</u>	
(ii) EARNINGS OF DIRECTORS AND FORMER DIRECTORS of Triplex Holdings Ltd. comprise:						
(a) Fees as Directors		5,800			4,905	
(b) Salaries and other earnings		8,750			11,250	
(c) Pension of a Former Director		625			625	
As Item (i) (d)		15,175			16,780	
(d) Share of Profit Sharing Funds (year to 30th June, 1960)		2,890			1,657	
(e) Pension Fund and Life Insurance Contributions		—			727	
		<u>£18,065</u>			<u>£19,164</u>	
2. OTHER INCOME:						
(a) Income from Investments		25,579			23,931	
(b) Interest on Deposits		32,361			10,696	
(c) Income from Properties (less outgoings)		3,240			2,912	
		<u>£61,180</u>			<u>£37,539</u>	
4. TAXATION comprises:						
(i) Income Tax						
(a) Liability on Profits for the year		447,000			772,775	
(b) Tax dealt with by deduction (net) and Property Tax		—21,819			—29,551	
		<u>425,181</u>			<u>743,224</u>	
(c) Adjustments for previous years		41			—20,687	
		<u>425,140</u>			<u>722,537</u>	
(ii) Profits Tax						
(a) Liability on Profits for the year		140,500			213,525	
(b) Adjustments for previous years		—18,276			+ 9,438	
		<u>122,224</u>			<u>222,963</u>	
		<u>£547,364</u>			<u>£945,500</u>	

TRIPLEX HOLDINGS LIMITED

NOTES ON BALANCE SHEETS

Item	AT 30th JUNE, 1961 TRIPLEX HOLDINGS LTD.	GROUP	AT 30th JUNE, 1960 TRIPLEX HOLDINGS LTD.	GROUP
1. CAPITAL —Authorised and Issued				
Authorised as at 30/6/60 and 30/6/61	£	£	£	£
1,965 (i) 15% Redeemable Cumulative Preference Shares of 10/- each issued and fully paid, redeemable after 30th June, 1962, at 21/- per share	1,965	1,965	1,965	1,965
3,046,672 (ii) Ordinary Shares and Stock Units of 10/- each of which have been issued and fully paid up	3,038,799	3,038,799	3,038,799	3,038,799
	<u>£3,040,764</u>	<u>£3,040,764</u>	<u>£3,040,764</u>	<u>£3,040,764</u>
<u>£3,048,637</u>				
2. RESERVES (i) Assets Replacement Reserve at 30th June, 1960	—	283,934	—	210,695
Transfer (See Item 1 (i) (b) of Notes on Consolidated Profit and Loss Account)	—	86,104	—	73,239
		<u>370,038</u>		<u>283,934</u>
(ii) Transit Breakage Reserve at 30th June, 1960	—	5,000	—	5,000
(iii) Other Reserves i.e.:—				
Profit on Sales of Investments and Property, at 30th June, 1960	46,086	46,086	—	—
Add Profit in current year on Sales of:—				
Investments	22,920	22,920	46,086	46,086
Goodwill of Plastics Department	—	4,000	—	—
	<u>69,006</u>	<u>73,006</u>	<u>46,086</u>	<u>46,086</u>
	<u>£69,006</u>	<u>£448,044</u>	<u>£46,086</u>	<u>£335,020</u>

TRIPLEX HOLDINGS LIMITED

NOTES ON BALANCE SHEETS (continued)

Item	AT 30th JUNE, 1961		AT 30th JUNE, 1960	
	TRIPLEX HOLDINGS LTD.	GROUP	TRIPLEX HOLDINGS LTD.	GROUP
8. CURRENT ASSETS comprise:—	£	£	£	£
STOCKS, at or below cost	332	1,574,794	385	1,578,407
DEBTORS, less provision for Bad Debts	15,218	1,557,169	16,501	1,524,248
DIVIDENDS due from SUBSIDIARY COMPANIES (less Tax)	388,785	—	299,066	—
SHORT TERM FIXED INTEREST LOAN	102,000	102,000	100,000	100,000
TAX RESERVE CERTIFICATES	—	300,000	—	400,000
BANK and CASH BALANCES	117,324	1,224,935	87,900	1,302,631
	<u>£623,659</u>	<u>£4,758,898</u>	<u>£503,852</u>	<u>£4,905,286</u>
9. CURRENT LIABILITIES comprise:—				
CREDITORS AND ACCRUED EXPENSES	4,457	606,164	5,963	767,204
CURRENT TAXATION	7,452	1,058,756	20,522	837,204
PROPOSED DIVIDEND (less Tax)	232,658	232,658	279,190	279,190
	<u>£244,567</u>	<u>£1,897,578</u>	<u>£305,675</u>	<u>£1,883,598</u>
12. INVESTMENTS at Directors' Valuation comprise:—				
TRADE QUOTED (Market Value at 30/6/61, £679,725) (At 30/6/60, £574,725)	14,439	14,439	14,439	14,439
	213,000	213,000	228,975	228,975
	<u>£227,439</u>	<u>£227,439</u>	<u>£243,414</u>	<u>£243,414</u>
13. DEFERRED REVENUE EXPENDITURE				
Design and Development expenditure at cost, less amounts written off (Previously this item has been included in Debtors.)	—	£40,423	—	£28,253
14. INTEREST IN SUBSIDIARY COMPANIES comprise:—				
(i) TRIPLEX SAFETY GLASS CO. LTD. 1,953,081 Shares of £1 each, fully paid	1,953,081	—	1,953,081	—
Loan	—	120,000	—	120,000
(ii) STERN & BELL LTD. 341,250 Shares of £1 each, fully paid	341,250	—	341,250	—
Loan	—	25,000	—	50,000
(iii) WELDALL & ASSEMBLY LTD. 675,000 Shares of £1 each, fully paid	675,000	—	675,000	—
Loan	—	145,000	—	50,000
(iv) TRIPLEX ESTATES LTD. 100 Shares of £1 each, fully paid	100	—	100	—
	<u>£3,019,431</u>	—	<u>£2,949,431</u>	—
(v) Weldall & Assembly Ltd. hold 3,600 Shares of £1 each, fully paid, in Charles S. W. Grigg Ltd., whose issued Capital is £7,000 and whose results are included in the Consolidated Accounts.				

I. SUMMARY OF FIXED ASSETS

	AT 30th JUNE, 1961			AT 30th JUNE, 1960		
	Cost £	Depreciation £	Book Value at 30/6/61 £	Cost £	Depreciation £	Book Value at 30/6/60 £
TRIPLEX HOLDINGS LTD.						
FREEHOLD PROPERTY	56,187	10,916	45,271	56,187	9,563	46,624
LEASEHOLD PROPERTY	9,884	2,737	7,147	9,884	2,421	7,463
FURNITURE AND FITTINGS (including Office Appliances)	14,538	13,329	1,209	13,920	12,820	1,100
	<u>£80,609</u>	<u>£26,982</u>	<u>£53,627</u>	<u>£79,991</u>	<u>£24,804</u>	<u>£55,187</u>
GROUP						
FREEHOLD PROPERTY	1,374,957	255,293	1,119,664	1,227,377	224,060	1,003,317
LEASEHOLD PROPERTY	227,187	22,800	204,387	227,187	18,122	209,065
PLANT AND MACHINERY	2,946,205	1,929,885	1,016,320	2,596,479	1,649,108	947,371
FURNITURE AND FITTINGS (including Office Appliances and Canteen Equipment)	177,287	129,820	47,467	166,813	118,185	48,628
MOTOR VEHICLES	99,257	73,562	25,695	92,819	65,623	27,196
	<u>£4,824,893</u>	<u>£2,411,360</u>	<u>£2,413,533</u>	<u>£4,310,675</u>	<u>£2,075,098</u>	<u>£2,235,577</u>
GOODWILL, PATENTS AND TRADE MARKS			2			2
			<u>£2,413,535</u>			<u>£2,235,579</u>

NOTE. In the case of certain assets, the amount included above as "Cost" represents either, professional valuations made in 1948 and 1949 or Net Book Value at 30/6/48.

ESTIMATED AMOUNTS OF CONTRACTS FOR CAPITAL EXPENDITURE not provided for are:—

	AT 30/6/61	AT 30/6/60
TRIPLEX HOLDINGS LTD.	Nil	£4,000
GROUP	£133,309	£285,380
CONTINGENT LIABILITY		
There is a contingent liability in respect of Bills of Exchange under discount at 30th June, 1961, amounting to	£5,000	£16,600

CITY NOTES

THE equity sections of the stock-markets continue to exist in a no-man's-land between the view, on the one hand, that the worst has been discounted, and the evidence on the other that the worst may last for some time. Any advance in prices on a spasmodic return of investment support invariably falls foul of discouraging company profit and dividend news.

In company affairs, the role of properties is becoming increasingly important. Views vary in different boardrooms, but two major companies have recently gone separate ways on property revaluation. The board of Saxone, Lilley & Skinner, the shoemakers and retailers, recently insisted that the worth of property revaluation was not in the actual surplus shown, but in the opportunity it provided to gauge whether or not profits were being earned commensurate with asset values.

The Debenhams board, on the other hand, have come out against a property revaluation, but definitely not against property development. Acquisition of a number of provincial department store companies has provided Debenhams with considerable property development potential in key town and city sites.

This week's news from Debenhams brought the inevitable comment that property developments would be undertaken with the financial backing of leading insurance companies. The extent to which insurance companies may tie up funds in property development is currently restricted, but when the restrictions are removed, the funds will undoubtedly flow freely again.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Estate Companies

SIR, - I have read with interest the correspondence and your contributor's replies which have followed the article 'Estate Companies' originally published in your issue of August 26th.

With respect to your contributor, I only wish I could accept as being true the facts he sets out in his reply to Mr Derek E. Hudson's letter published in your issue of September 30th. You quote your contributor as stating, having regard to the Special Commissioners and Section 425, Income Tax Act, 1952, '... no such test is required of the "sums disbursed as expenses of management" '.

With a view to correcting what is interpreted as

RATES AND PRICES

Closing prices, Wednesday, November 8th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6½%
Oct. 27, 1960	5½%	Nov. 2, 1961	6%

Treasury Bills

Sept. 1	£6 14s 0.50d%	Oct. 6	£6 2s 5.80d%
Sept. 8	£6 12s 10.81d%	Oct. 13	£6 0s 0.28d%
Sept. 15	£6 11s 10.99d%	Oct. 20	£5 18s 5.35d%
Sept. 22	£6 10s 6.51d%	Oct. 27	£5 14s 6.57d%
Sept. 29	£6 11s 0.48d%	Nov. 3	£5 8s 6.10d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	4½-5½%	2 months	5½-5½%
Fine Trade Bills		3 months	5½-5½%
3 months	6½-7½%	4 months	5½-5½%
4 months	6½-7½%	6 months	5½-5½%
6 months	7-8%		

Foreign Exchanges

New York	2.81½-½	Frankfurt	11.26½-7
Montreal	2.90½-½	Milan	17.46½-½
Amsterdam	10.14½-½	Oslo	20.03½-½
Brussels	140.07½-08½	Paris	13.83½-½
Copenhagen	19.37½-38½	Zürich	12.17½-½

Gilt-edged

Consols 4%	60½	Funding 3% 59-69	82½
Consols 2½%	39½	Savings 3% 60-70	80½
Conv'sion 5½% 1974	92½xd	Savings 3% 65-75	72½
Conversion 5% 1971	93½	Savings 2½% 64-67	85½
Conversion 3½% 1969	86½	Treasury 5½% 2008-12	84
Conversion 3½%	52½	Treasury 5% 86-89	82½
Exchequer 5½% 1966	98½	Treasury 3½% 77-80	70½xd
Funding 5½% 82-84	93½	Treasury 3½% 79-81	70½
Funding 4% 60-90	89½	Treasury 2½%	38½
Funding 3½% 99-04	58½	Victory 4%	94½
Funding 3% 66-68	84½	War Loan 3½%	52½xd

being an erroneous statement of fact your correspondent is referred to Section 425 (8), Income Tax Act, 1952, which provides, *inter alia*, that where the Inspector objects to a management expenses claim the Special Commissioners shall hear and determine it.

Yours faithfully,
JASON S. MEYLER.

Brighton 1.

[Our contributor writes: 'Section 425 (8) provides that the Special Commissioners shall hear and determine the claim in like manner as in the case of an appeal. In the original article reference was made to the question as to what scale of remuneration "would be likely to prove acceptable to the Commissioners who, on appeal, have the ultimate say in the matter"'. Now Section 425 (1) requires the company to claim and prove to the satisfaction of the Commissioners that it has borne tax and it is precisely this burden of proof which is lacking when Section 425 refers to management expenses. Surely if it was intended to limit repayment to those management expenses which the Commissioners considered reasonable, nothing would have been easier than to insert words to that effect as is done in Section 262?']

Should Britain Decimalize?

SIR, - Whilst the subject of decimalization still simmers in your correspondence columns, could I add a plea for taking a bold line in this matter. Almost every other note or coin we have at present has been suggested as the 'unit of currency' - the Institute have even gone as far as recommending officially that 10s be taken for this purpose. This is a hideous compromise.

Basically we should consider whether to retain the £ as our unit, divided into its 1,000 'mils' (each roughly equal to a farthing), or to work from the other end and have one hundred coins of our lowest denomination (e.g. the halfpenny) in a new unit worth 4s 2d.

In the former case, foreign exchange would not be affected, but the difficulties and inflationary dangers of having 1 penny (old) = 1.2 pennies (new) have been stated repeatedly.

If a 4s 2d unit were to be used, the price of any article could be converted exactly into the new currency, and no more than two decimal places would be needed.

As I would rather have exchange men multiplying their currency equivalents by 50/240ths than the British public being robbed at a fifth of a penny a time, I would go for a 4s 2d unit. If that gives rise to visions of rows of 0's remember that no figure when multiplied by 5 extends its length by more than one digit. And we would only have two places of decimals instead of three figures for shillings and pence. Why therefore, a unit of 8s 4d, as Mr Feist suggests in your issue of October 28th?

Taking 10s as the unit would seem to have the disadvantages of both methods, and the advantages of neither.

Yours truly,

E. R. A. WOODHEAD, A.C.A.

Buxton, Derbyshire.

SIR, - I am surprised that so many accountants should favour the introduction of a decimal currency.

Our currency system, which has stood the test of time, should not be lightly abandoned, merely in order to conform to foreign standards.

Yours faithfully,

London W2.

KEITH JEWETT, F.C.A.

Decimalization and Computers

SIR, - In looking through my file of articles on the subject of decimalization I have just reperused Colonel P. R. MacIver's interesting article which you published on June 24th. In it he said:

'In contrast, the digital computer performs wonders on a binary base, but it is only capable of doing so by virtue of its indefatigably retentive memory. The human brain would be as incapable of manipulating the binary base as it would be dealing with a thousand different digits.'

Perhaps Colonel MacIver is unaware that when Mr William Phillips first put forward the idea for a binary electronic computer at a meeting of the

Institute of Actuaries on January 27th, 1936, he stated that he had held up his ideas for some period because 'anyone who has had the least practical experience can visualize the danger of transposition and other integral error in compiling and dealing with line after line of figures consisting only of units of ciphers'. Consequently he did not proceed until it occurred to him that *s.n.8* converts into *s.n.2*, and the latter reconverts into *s.n.8* on sight (*s.n.* being the more customary method of representing scale of notation, for which Colonel MacIver employed the symbol *x*).

The octonary scale was not advocated for commercial purposes, but was, and still is, advocated for purely scientific work. There is no reason why scientists should not employ *s.n.8* for all their quantities and factors, and they would then be able to use an electronic computer which, with an *s.n.8* input and output, would be much smaller and simpler to construct, and accordingly, much cheaper to manufacture, than the one which has to accept denary quantities, to say nothing of pounds, shillings and pence and other measurements not decimalized, and have the necessary facility for converting them into the binary scale, subsequently reconvertng the answer back into decimals, pounds, shillings and pence, yards, feet and inches, and so on.

Yours truly,

London EC4.

WILLIAM HALE.

National Savings Campaign

SIR, - May I, in my capacity as chairman of the City of London Savings Committee, be allowed to bring to the notice of your readers the current savings campaign, 'Plan to invest', the object of which is to stimulate investment in National Savings securities and, by this means, to contribute towards the economic stability of the country.

To those who advise on such matters, I should like to suggest that our securities are well worth consideration, and I list them below with, in each case, the total holding of present issues permissible and, for interest, the income tax concession: National Savings Certificates, £900, tax free; 5 per cent Defence Bonds, £5,000, not taxed at source and with a £3 per cent tax free bonus at the end of seven years; Premium Savings Bonds, £800, with tax free prizes ranging from £25 - £5,000; deposits in the Post Office Savings Bank and Trustee Savings Banks (Ordinary Department) - £5,000 in each - interest on individual Savings Banks accounts up to £15 free of tax.

Inquiries are welcomed and should be sent to our offices at Empire House, St Martin's-le-Grand, London EC1. Telephone: Monarch 1953.

Yours faithfully,

E. WHITLEY-JONES,

Chairman,

CITY OF LONDON SAVINGS COMMITTEE.

Empire House,
St Martin's-le-Grand,
London EC1.

Current Law

Investment of Trust Fund

IN *Re Cooper's Settlement, Cooper v. Cooper* ([1961] 3 All E.R. 636) (to which we referred briefly in a leading article last week), Buckley, J., was asked to sanction, under Section 1 of the Variation of Trusts Act, 1958, an arrangement under which *inter alia* the trustees might invest in industrial equities the whole of the trust funds in their hands. To a large extent the trust moneys consisted of shares in an investment trust company, which had become a public company, and these shares the trustees were authorized to retain. If, however, they sold any of these shares the field of investment left to them by the settlement, although not strictly confined to trustee investments, was rather restricted.

Rejecting that part of the arrangement which would have permitted investment in the manner sought, Buckley, J., said that, in his judgment the Legislature, in enacting the Trustee Investments Act, 1961, had indicated the extent to which, in ordinary cases, Parliament thought it right that trustees should be free to invest otherwise than in gilt-edged investments; and that the enactment of that Act must have a direct and important bearing on the exercise by the Court of its discretion in varying trusts under the Act of 1958 in relation to powers of investment. The Court would have to be satisfied, whenever relaxation of trustees' powers of investment was sought, that there were special grounds which made it right that they should have powers wider than those which the Legislature had indicated as normally appropriate.

The fact that in the present case the trust moneys were invested in an investment trust company and not an industrial or commercial company dealing in some commodity other than investments seemed to his lordship to be rather against the case being a special one. An investment trust company was of itself a means of spreading the risk of investment for its shareholders. The case could not be equated to one in which the trustees held shares which they were authorized to retain in some industrial or commercial concern where it might be very important at some particular moment to get out of the business and to get their money into something less risky. As long as any of the trust moneys were retained in the form of shares in the company the trustees would have the advantage of the protection of the company itself in the way of preserving the value and flexibility of the underlying assets.

His lordship approved the rest of the arrangement, which involved a rearrangement of interests in the trust funds and the retention by trustees who were directors of the investment trust company of the remuneration which they received as directors.

Limitations on Power of Advancement

THE testator in *Re Pilkington's Will Trusts, Pilkington and Others v. Pilkington and Others* ([1961] 2 All E.R. 330) constituted a trust fund and settled part of it for the benefit of his nephew, R., during his life and after his death for his children or issue as he should appoint, and in default of appointment for his children equally. The statutory powers of advancement applied, and the trustees proposed to exercise these powers so as to raise a sum of money out of the trust fund and pay it to the trustees of another settlement under which R.'s daughter, P., then aged two years, was entitled to the settled fund absolutely if she should attain the age of 30 years; if she should have died under that age leaving a child or children who attained the age of 21 years such child or children would take the fund absolutely, if more than one in equal shares. In certain events this advancement by way of resettlement would effect a saving of estate duty.

The Court of Appeal, reversing the decision of Danckwerts, J. (as he then was) ([1959] 2 All E.R. 623), held that the statutory power of advancement is not validly exercised unless in reference to particular circumstances existing at the time in relation to the object of the power who is to be benefited. The advantages said to result from the advancement were of an impersonal kind when related to P., and it was irrelevant that the trustees thought it for her benefit. The question of perpetuity was considered by Upjohn, L.J. His lordship took the view that the trusts of the new settlement must be read into the testator's will, and on that basis found the direction that the trustees should hold the capital of the trust fund on trust for P. if she should attain the age of 30 years *prima facie* bad (though possibly saved by Section 163 of the Law of Property Act, 1925), and the trust for P.'s children if she should die under the age of 30 bad in any event.

Name and Arms Clause

THE testator in *Re Howard's Will Trusts, Levin and Others v. Bradley and Others* ([1961] 2 All E.R. 413) devised three freehold estates on trust for his wife for life, then for his daughter, L., for life, with remainders over, and required that persons other than L. or a peer or peeress who became entitled in possession to any part of the settled estates should within a year after certain events 'take use and bear . . . upon all occasions the surname of Howard . . . and shall also use the arms of Howard', and that persons refusing or neglecting to do so or discontinuing to use and bear the same should forfeit their interests. This condition applied to men, single women and married women. None of the persons interested in remainder had complied with the condition.

Wilberforce, J., held that the condition was so expressed as to be sufficiently certain, and that it was

void as contrary to public policy only in so far as it purported to affect a woman who was married at the date when the obligation to use the name and arms arose or her husband. As the persons respectively entitled on L.'s death to the three estates were a man, a widow and a married woman, the condition was valid as regards the first two, but void as regards the third. L. during her lifetime had effected a partial release of her interests under the will, but Wilberforce, J., held that this did not have the effect of bringing the name and arms clause into operation before her death.

Education of Relations

MOHAMED *Falil Abdul Caffoor and Others v. Commissioner of Income Tax, Colombo* ([1961] 2 All E.R. 436), a case before the Judicial Committee of the Privy Council, is referred to here solely from the point of view of its relevance to the law of charity. (The tax aspect of the case was considered under 'Taxation Cases' in *The Accountant* of May 27th, 1961.) The settlor created a trust fund under the trusts of which it was open to the trustees to apply the whole

'for the education, instruction or training in England or elsewhere abroad of deserving youths of the Islamic faith in . . . professions vocations occupations industries arts or crafts trades employments subjects lines or any other departments of learning or human activity whatsoever. . . .'

The trustees were to choose recipients of the benefits provided for

from the following classes of persons and in the following order: (i) male descendants along either the male or female line of the grantor or of any of his brothers or sisters failing whom (ii) youths of the Islamic Faith not being male descendants as aforesaid of the grantor or of his brothers or sisters born of Muslim parents of the Ceylon Moorish Community permanently resident in the City of Colombo (wherever such youths may have been or be resident from time to time) failing whom (iii) youths of the Islamic Faith . . . born of Muslim parents . . . permanently resident anywhere else in . . . Ceylon'.

The Privy Council took the view that the trust was not charitable: although educational purposes are themselves charitable purposes, no trust under which the beneficiaries are defined by reference to a purely personal relationship with a named propositus can be a valid charitable trust. But Lord Radcliffe, delivering the advice of their lordships, said that they did not think that a trust which provided for the education of a section of the public necessarily lost its charitable status or its public character merely because members of the founder's family were mentioned explicitly as qualified to share in the educational benefits or even, possibly, were given some kind of preference in the selection.

Operative Signature not Attested

SECTION 9 of the Wills Act, 1837, requires that a will shall be signed at the foot or end thereof by the testator and that such signature shall be made or acknowledged by the testator in the presence of two or more witnesses present at the same time. The testator in *In the Estate of Bercovitz, Canning and Another v. Enever and Another (Siemer van Hemert and Others intervening)* ([1961] 2 All E.R. 481) signed his will at the top and at the foot. Two witnesses signed side by side below the signature at the top. One of these witnesses said in evidence that when they signed everything below their signatures was covered by blotting paper. She said that she thought that the body of the will was on a previous page and did not know either that it in fact followed the signatures of the witnesses or that the testator had signed again at the end of the will. She also said that, had she known about the signature at the end, she would have insisted upon both her and the other witness attesting it.

Phillimore, J., said that, in considering whether or not a will has been duly attested, the vital question was whether the witnesses when they signed intended to attest the operative signature of the testator, having seen or had the opportunity to see that signature either made or acknowledged. In reaching a decision the practice was to apply the maxim *omnia praesumuntur rite esse acta* with more or less force according to the circumstances of each case. In the present case his lordship held that the presumption was rebutted because, on the evidence, the witnesses did not intend to attest the operative signature at the end of the will, but the inoperative one below which they signed. Accordingly, the will was not validly executed.

Contributory's Petition: Costs

IN the ordinary course a contributory who presents a petition for the winding-up of a company must allege and prove, at least to the extent of a prima facie case, that he will have a tangible interest in the assets in the winding-up: this rule is found in *Re Rica Gold Washing Co* ((1879) 11 Ch.D. 36). The petitioner in *Re Newman & Howard Ltd* ([1961] 2 All E.R. 495) sought a winding-up order on the ground that it was just and equitable, because he had been unable to obtain any accounts of the company or any information in regard to its affairs. The company produced the desired accounts and the petition was dismissed.

Pennycuik, J., ordered the company to pay the costs of the petition, holding that the general rule did not apply where it was, as here, impossible for the petitioner to allege that the assets were of such an amount that he had an interest in them. It was the inability of the petitioner to obtain details of the assets which gave rise to the petition.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the judgments, in the 'Annotated Tax Cases'.

Vestey v. C.I.R.

In the High Court of Justice (Chancery Division)
October 23rd, 1961

(Before Mr Justice CROSS)

Income tax - Sale of shares - Payment by annual instalments over 125 years - Whether sale for an annuity - Whether instalments divisible between principal and interest - Income Tax Act, 1952, Schedule D, Case III.

On May 9th, 1956, the appellant agreed to sell to certain trustees a block of shares, and the purchase money was to be paid without interest in 125 yearly instalments of £44,000 each. If the purchaser made default in payment of any instalment for a specified period after the instalments became due, the whole of the unpaid instalments were to become payable immediately and were to carry interest. On the same day the appellant executed a transfer deed, whereby he transferred the shares 'in consideration of the sum of £5.5 million payable by instalment of £44,000 per annum over 125 years' in accordance with the agreement. The making of the agreement had been preceded by a question being put to a firm of accountants asking what the fair value to place on the shares for a sale with the purchase money payable over, say, 125 years would be. In their reply the accountants fixed the price at £2 million by reference to the long-term yield on Government securities and assuming an interest rate of 2 per cent.

The appellant was assessed to surtax for 1956-57 and 1957-58, and the first two instalments of £44,000 were included in those assessments respectively. The appellant contended that the £44,000 was a capital sum, in that it was an instalment of the price payable for the shares; and that no part could be included in the computation of his total income. The respondents contended (1) that the £44,000 was an annuity and should be included in computing the amount of the appellant's total income; (2) in the alternative, that the £44,000 should be dissected into principal and interest: and that the amount of the interest element should be included in the computation of the appellant's total income. The Special Commissioners decided that the second method contended for by the respondents was the correct method to adopt, and they adjusted the assessments in accordance with the agreed figures.

Held: the Special Commissioners' decision was correct.

Faye v. C.I.R.

In the High Court of Justice (Chancery Division)
October 19th, 1961

(Before Mr Justice CROSS)

Income tax - Income from securities abroad - Domicile - Married woman acquiring husband's domicile - Divorce - United Kingdom residence - Whether United Kingdom domicile acquired - Income Tax Act, 1952, Schedule D, Case IV (Section 123), Section 132 (2), (3).

The appellant was born in Western Australia, and she had an Australian domicile of origin. While on a visit to England she married a Frenchman domiciled in France, and thereby she acquired a French domicile. Soon after the marriage she and her husband went to Australia and lived there continuously for fifteen years apart from a short interval. Then they came to England for the education of their children and the husband acquired an English domicile of choice. Two years afterwards their marriage was dissolved by a decree of divorce. The appellant then remained in England apart from a visit of six months to Western Australia.

Before the appellant's marriage her mother had died and left her and her sister a large sheep farm in Australia; and the appellant had other extensive business interests there. During her marriage she settled her Australian property for the benefit of herself, her sister and their children. The main assets of the trust were shares in an Australian investment-holding company, and of the five trustees, three were resident and domiciled in Australia. On the appellant's half-share of the farm there were two houses, one for the manager, and the other available for the appellant's use. The manager referred to the appellant for instructions on matters of policy. She was a director of the Australian investment-holding company, and she was regularly informed as to its affairs. In three wills the appellant declared her domicile to be in Western Australia. Ever since her divorce the appellant wished to return to live in Australia, but she remained in England because of her sons' education and because of the age and health of her father living here.

It was contended on behalf of the appellant that for the years 1955-56, 1956-57 and 1957-58 she was not domiciled in the United Kingdom in that her United Kingdom domicile was lost after her divorce, and her Australian domicile of origin revived. It was contended on behalf of the respondents that the appellant's English domicile continued throughout the three years under appeal, because although she had the intention of returning to Australia, she had not done sufficient to put her intention into effect. The Special Commissioners decided in favour of the respondents.

Held: the Special Commissioners' decision was correct.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, November 1st, 1961, at the Hall of the Institute, Moorgate Place, London EC2, there were present:

Mr P. F. Granger, President, in the Chair; Mr P. F. Carpenter, Vice-President; Messrs J. F. Allan, C. Percy Barrowcliff, W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, J. Clayton, E. Hay Davison, W. G. Densem, S. Dixon, W. W. Fea, Sir Harold Gillett, Bt., M.C., Messrs J. Godfrey, G. G. Gault, L. C. Hawkins, J. S. Heaton, D. V. House, J. A. Jackson, H. O. Johnson, W. H. Lawson, C.B.E., H. L. Layton, R. B. Leech, M.B.E., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E. F. E. Price, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs J. D. Russell, D. Steele, J. E. Talbot, A. H. Walton, V. Walton, M. Wheatley Jones, E. F. G. Whinney, J. C. Montgomery Williams, R. P. Winter, C.B.E., M.C., E. K. Wright, Sir Richard Yeabsley, C.B.E.

Election to the Council

Mr Ralph Gordon Slack, M.A., F.C.A., was elected a member of the Council to fill the vacancy caused by the resignation of Mr Charles Maxwell Strachan, O.B.E., F.C.A.

Appointment to Committee

Sir William Carrington has been appointed to the Disciplinary Committee to fill the vacancy caused by the resignation from the Council of Mr C. M. Strachan.

Canadian Institute of Chartered Accountants

The Council received a report from Mr W. H. Lawson on his attendance at the fifty-ninth annual conference of the Canadian Institute of Chartered Accountants held in Toronto from September 24th to 27th, 1961, where he gave a paper on practical steps to improve financial statements.

Nederlands Instituut van Accountants

The Council received a report from Sir Thomas Robson on his attendance with the President and Mr S. John Pears and the Secretary at the Accountants' Yearday of the Nederlands Instituut van Accountants at Scheveningen on September 29th and 30th, 1961.

Chartered Accountants Retirement Benefits Scheme (CARBS)

The Council approved a notice for issue to all members in the United Kingdom regarding the benefits obtainable under the Chartered Accountants Retirement Benefits Scheme as compared with those obtainable elsewhere.

Chartered Accountants Employees Superannuation Scheme (CAESS)

The Council authorized the issue to all members of a report (reproduced elsewhere in this issue) by Chartered Accountants Trustees Limited as trustees of Chartered Accountants Employees Superannuation Scheme.

Local Government Act, 1933, Section 76: Disclosure of Pecuniary Interest

The Council received the opinion of Counsel on the position of practising members of the Institute who are members of local authorities and are therefore subject to the provisions of Section 76 of the Local Government Act, 1933.

The opinion will be issued to members in due course for insertion in the *Members' Handbook*.

Approved University Degree Courses: Bye-law 62

The Council resolved that the following degree courses be approved for the purposes of Bye-law 62 (in place of those previously approved) provided that the subjects taken are in accordance with the course approved by the Joint Standing Committee of the Universities and the Accountancy Profession:

From October 1961:

University of Leeds, B.COM.

University of London, B.SC.(ECON.)

University of Manchester, B.A.(ECON.)

From October 1962:

University of Southampton, B.SC.(Social Sciences).

There is no change in the position of students who have commenced a degree course previously approved under Bye-law 62.

Registration of Articles

The Secretary reported the registration of 535 articles of clerkship during the last month, the total number since January 1st, 1961, being 2,352.

Admissions to Membership

The following were admitted to membership of the Institute:

Allen, Henry Michael Cunard, A.C.A., a1961; 1 Hurst Dale, Devisdale Road, Bowdon, Cheshire.

Amorin, Joao Newton Eugenio, B.COM., A.C.A., a1961; c/o College of Administration, Achimota, near Accra, Ghana.

§ Means 'incorporated accountant member.'

¶ Means 'member in practice.'

a Indicates the year of admission to the Institute.

aS Indicates the year of admission to the Society of Incorporated Accountants.

Firms not marked † or * are composed wholly of members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

†† Against the name of a firm indicates that the firm includes an incorporated accountant member of the Institute and is composed wholly of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Barrell, Michael Anthony Carl, A.C.A., 1961; with Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London EC2.

§Bates, Peter John, A.S.A.A., 1961; c/o Technimetals (Proprietary) Ltd, P.O. Box 6880, Johannesburg, South Africa.

Bates, Philip, A.C.A., 1961; 59 Medbourne Crescent, Southdene, near Liverpool.

§Clow, Peter Jon, A.S.A.A., 1961; 327 Station Street, Hatfield, Pretoria, South Africa.

§Damant, Frederick Michael, A.S.A.A., 1961; with Alex, Aiken & Carter, P.O. Box 975, Pretoria, South Africa.

Fielden, David Shaw, A.C.A., 1961; 5 Sutherland Drive, West Bridgford, Nottingham.

§Hanna, John Peter Robertson, A.S.A.A., 1961; 24 Newton Wood Road, Ashted, Surrey.

Hill, John Bennett, A.C.A., 1961; c/o 'Marthaven', Slade, Cosheston, Pembroke Dock, Wales.

Hill-Cottingham, Brian Edward, A.C.A., 1961; 14 Highfield Road, Chelmsford, Essex.

Jones, Kenneth, A.C.A., 1961; 6 Burneston Gardens, Bradford 6.

Keyes, Roger Edwards, A.C.A., 1961; 'St Eloi', West End Avenue, Pontnewydd, Pontypool, Mon.

Liddiard, Geoffrey, A.C.A., 1961; 230 Turney Road, Dulwich, London SE21.

Moore, George Graham, B.A., A.C.A., 1961; 4 Marchmont Gardens, Richmond, Surrey.

Morgan, Cedric Evan, B.A., A.C.A., 1961; 12 Badminton Road, London SW12.

Peacock, Royston, A.C.A., 1961; 56 Rydal Road, Darlington.

Reay, Christopher John, B.A., A.C.A., 1961; 'Molende', Molemer Road, East Molesey, Surrey.

§Richards, (Miss) Gillian Margaret, A.S.A.A., 1961; P.O. Box 5186, Nairobi, Kenya.

Rope, Jonathan Humphrey Packard, A.C.A., 1961; Knole House, Claydon, Ipswich.

Shutte, Malcolm David Neale, A.C.A., 1961; 31 Portsdown Hill Road, Bedhampton, Havant, Hants.

Soar, Brian Francis, A.C.A., 1961; 36 Beattyville Gardens, Ilford, Essex.

Wilson, Walter Allan, A.C.A., 1961; 63 Pemberton Road, East Molesey, Surrey.

Worby, Richard Charles, A.C.A., 1961; 63 Burford Way, Hitchin, Herts.

Fellowship

The Council acceded to applications from twelve associates to become fellows under clause 6 of the supplemental Royal Charter.

Incorporated Accountant Members Becoming Associates

The Council acceded to two applications from the following incorporated accountant members for election as associates under clause 6 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter.

†Girling, Norman, A.S.A.A., 1956; ††A. J. Gould & Norman Girling, The Strand, Padstow, Cornwall.

Kirby, Terence Colin, A.S.A.A., 1958; with Smailes, Holtby & Gray, 99 Princes Avenue, Hull.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Andrews, Ernest Philip, T.D., F.C.A., 1947; 'Ilchester', West Cliff, Bridport, Dorset.

Bates, Edward Laurence, A.C.A., 1952; Thomas May & Co, Allen House, Newark Street, Leicester.

Bayley, Harold George, F.C.A., 1937; Louis Nicholas & Co, Scottish Equitable Chambers, 19 Castle Street, Liverpool 2.

Bennett, Barrie John Arthur, A.C.A., 1951; Durie Kerr, Watson & Co, Lombard House, Charles Street, Birmingham 3, and at Lond Beresford, Colin, A.C.A., 1961; P. F. Pier Cannon Street, Accrington.

Boland, Robert George Alfred, B.A., F.C.A., 19 & Boland, Stenforth, Barons Court, Burgess and at Warninglid.

Bowen, John Neil, A.C.A., 1958; Bowen, Dawe Co, 16 Bridge Street, Worcester.

Brand, Richard Walter, A.C.A., 1954; Arthur Chansitor House, 37-38 Chancery Lane, L

Burgess, Geoffrey John, A.C.A., 1955; E. J. H. 294 High Street, Acton, London W3; also at Chambers, 310/312 Chiswick High Roa

W4, E. J. H. Clarke & Co, and Clarke, May

Clarke, John Evelyn, A.C.A., 1961; E. J. H. Cla Clarke, Maynard & Son, Lloyds Bank Cham

Chiswick High Road, London W4; also : Street, Acton, London W3, E. J. H. Clarke

Coghill, Anthony Edward, A.C.A., 1960; How 131 High Street, Teddington, Middx; als

F. A. Magee & Co.

Cox, Trevor, A.C.A., 1960; William Wetton Kennedy Street, Manchester 2.

Cunnington, James Philip, A.C.A., 1959; *P. J. & Co, District Bank Chambers, Hotel Stree

Edgley, Geoffrey Henry George, F.C.A., 19 Channing & Co, 28 East Street, Bridport, D

Elliott, Denis Michael, A.C.A., 1953; Donald Elliott, Ellerslie Chambers, Hinton Road, B

Evans, Derek Jackson, A.C.A., 1954; Hargreav Benson, 2 Derby Street, Colne, Lancs.

Felton, Anton Peter, A.C.A., 1961; Anton F 191-193 Church Road, Willesden, London

12 Froggnal Lane, Hampstead, London NW; Freedman, Michael Augustus, A.C.A., 196

Freedman & Co, 73 Marsden Road, South Durham.

Gordon, Alexander Duncan, M.A., A.C.A., 19 Brothers & Co and Coopers & Lybrand, Ab

33 Gutter Lane, Cheapside, London EC2, and Grose, Douglas Andrews, A.C.A., 1959; Jame

Co, Mansion House, Princes Street, Trur; also at Newquay, Christie, Hulbert & Co.

Hitchins, Wilfred David William, A.C.A., 19 Queen Victoria Street, Reading.

Hollis, Anthony John, A.C.A., 1953; Hope Pinner's Hall, Austin Friars, London EC2.

Howell, Albert, A.C.A., 1961; Johnstone, Howe Office Chambers, Carnegie St, Ellesmere Port

Laddin, Phillip, A.C.A., 1961; Phillip Laddi Westmeade, Prestwich, Manchester.

Lander, George William, F.C.A., 1948; *Goug Co and Gough & Wright, Lloyds Bank Cha

Street, Brierley Hill, Staffs.

Luck, George William, F.C.A., 1934; 1 Dunr Tonypandy, Glam.

Lyon, Michael Gordon, A.C.A., 1959; Louis Ni Scottish Equitable Chambers, 19 Castle Street,

Lowe, John Bruce Duff, A.C.A., 1959; Louis Ni Scottish Equitable Chambers, 19 Castle Street

McBroom, Archibald Ian, A.C.A., 1957; *McF 275 Ecclesall Road, Sheffield 11.

Marlow, Kenneth Reginald, A.C.A., 1955; Smith & Power, 96 Hagley Road, Edgbaston,

16, and at Balsall Common.

Mellor, Stephen Ward, A.C.A., 1957; 36 Square, London WC1.

Philp, John Robertson, F.C.A., 1938; Louis Co, Scottish Equitable Chambers, 19 Castle Street, Liverpool 2.

Pitt, Arthur Thomas, A.C.A. 1956; Central Bearwood Road, Smethwick 41, Staffs.

Rampton, John, A.C.A., 1958; Fryer, Sutton, 175 Friar Street, Reading, and at London.

Ross, Gordon A.C.A., a51957; 16 Findon Crescent, Sheffield 6.
 Stanley, Eric William, A.C.A., a1958; *Seymour, Taylor & Co, Station Close, Amersham Hill, High Wycombe.
 Stebbing, Raymond George, A.C.A., a1960; Stebbing & Enland, Stenforth, Barons Court, Burgess Hill, Sussex, and at Warringlid.
 Stirling, Malcolm Douglas, A.C.A., a1957; Russell, Durie & Co, Watson & Co, Lombard House, Great Charles Street, Birmingham 3, and at London.
 Thomas, Richard Arnold, A.C.A., a1951; Edmonds & Co, Earl Buildings, Portsmouth, and at Chichester, Newport (L.W.), Petersfield, Ryde, Shanklin and Ventnor.
 Tomlinson, Brian, A.C.A., a1960; Bedell & Blair, 79 Mosley Street, Manchester 2.
 Utsey, Robert David, A.C.A., a1956; F. Hunter, Gregory & Lord, 7 Irwell Terrace, Bacup, Lancs; also at Glossop and Manchester, F. Hunter, Gregory & Lord and Bowman, Dawes & Co.
 Waddrop, James Alan, B.A., A.C.A., a1955; †Peat, Marwick, Mitchell & Co, 17 Eldon Square, Newcastle upon Tyne 1.
 Zeman, Merton Sydney, A.C.A., a1958; Turk, Brandes & Co, and Alexander Gross & Turk, 3/4 Clement's Inn, Strand, London WC2.

Admission to Membership under the Scheme of Integration

Subject to payment of the amount required by the Council, the Council acceded to an application from one former member of The Society of Incorporated Accountants for admission to membership of the Institute under clause 5 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to Bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on September 25th, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Douglas Alfred Kater, F.C.A., (a) failed to satisfy a judgment debt amounting to £500 together with a sum of £13 3s 6d for costs obtained by a limited company; (b) had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that he failed to reply or take any action in response to a letter addressed to him by the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Douglas Alfred Kater, F.C.A., had been proved under both headings and the Committee ordered that Douglas Alfred Kater, F.C.A., c/o a bank

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to Bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on October 4th, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Roger Morse being a Clerk under Articles to an Associate of the Institute was convicted at a Magistrates' Court on three charges under the Larceny Act, 1916, of receiving

Re-admissions to Membership

Subject to payment of the amount required by the Council, one former member of the Institute was re-admitted to membership under clause 23 of the supplemental Royal Charter.

It was reported to the Council that the following re-admissions, made at the Council meeting on October 4th, 1961, subject to payment of the amounts required, had become effective:

Love, Frank, A.C.A., Avon Cottage, High Halden, Ashford, Kent.
 Passer, Henry Marcus, F.C.A., 34 Sussex Lodge, London W2.
 Richards, Timothy Roy, A.C.A., 2 Warwick Yard, Whitecross Street, London EC1.
 Youatt, Roy Deiniol, A.C.A., 8 Thelwall New Road, Thelwall, near Warrington.

Resignations

The Council accepted the resignation from membership of the Institute of:

Sothers, Ralph Henry, F.C.A., a1909; 16 Croften Road, Ipswich.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Ashburner, Robert Percy Foster, F.C.A., Wadhurst.
 Hirst, Greenwood Lacy, F.C.A., Dewsbury.
 Miller, (Miss) Dorothy Helena, F.C.A., London.
 Mombler, Cecil Anthony, F.C.A., Rye.
 Morris, Eric James, A.C.A., London.
 Pain, Sir Charles John, F.C.A., Nottingham.
 Sharpe, Sidney, F.C.A., London.
 Simmonds, Anthony Cecil, F.C.A., London.
 Smith, Basil Arthur, D.S.M., LL.D., F.C.A., London.
 Sykes, Stanley William, F.S.A.A., Margate.

in Adelaide, South Australia, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a Fellow of the Institute had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that he accepted appointment as professional accountant without first communicating with the existing professional accountants, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and ordered that the member be admonished, but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

articles knowing the same to have been stolen, so as to render himself liable to be declared unfit to become a member of the Institute. The Committee found that the formal complaint against Roger Morse had been proved and the Committee declared that Roger Morse was not fit to become a member of the Institute.

FINDING AND DECISION OF THE APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on September 4th, 1961.

The Appeal Committee heard appeals by two members against the Findings and Decisions of the Disciplinary Committee of the Council of the Institute upon formal complaints preferred by the Investigation Committee of the Council to the Disciplinary Committee that the said members had failed to pay the subscriptions respectively payable by them in respect of the year 1961 for four months after the same had become due so as to render themselves respectively liable to exclusion or suspension from membership of the Institute and the Committee in each case affirmed the

Finding of the Disciplinary Committee and, varying the Decision of the Disciplinary Committee, ordered that unless in each case the sum the subject of the formal complaint was received on or before October 31st, 1961, the member be excluded from membership of the Institute with effect from that date.

In one case a remittance was received within the time allowed. In the other case Kenneth Sykes, A.C.A., of 12 Waterloo Road, Romiley, near Stockport, was excluded from membership of the Institute with effect from October 31st, 1961.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

- Balance Sheets and the Lending Banker: a new assessment of accounts and their interpretation in relation to bank advances; by J. H. Clemens: third edition. 1961. (Europa Publications, 30s.)
- Development from Below: local government and finance in developing countries of the commonwealth; by Ursula K. Hicks. Oxford. 1961. (Clarendon Press, 35s.)
- The Dictionary of National Biography . . . : the concise dictionary: part I: from the beginnings to 1900: edited by G. Smith: second edition. 1906. (O.U.P., 60s.)
- The Estate Duty Act . . . ; by D. H. Nanavati. Bombay. 1960. (N. M. Tripathi, 55s.)
- Farm Organization and Management; by G. Hayes: second edition. 1961. (Crosby Lockwood, 25s.)
- Finite Differences for Actuarial Students; by H. Freeman. 1960. (C.U.P., 17s 6d.)
- Investments; by G. Dowrie, D. R. Fuller and F. J. Calkins: third edition. New York. 1961. (Wiley, presented by Mr F. W. Forge.)
- Investments: principles, practices and analysis; by D. H. Bellemore: second edition. New York. 1960. (Summers-Boardman, 84s.)
- The Manager and the Organization; by E. Moonman. 1961. (Tavistock Publications, 21s.)
- The Multi-Millionaires: six studies in wealth; by G. Rees. 1961. (Chatto & Windus, 21s.)
- Personnel Management Salaries: report of a survey undertaken in February/March 1961. (Institute of Personnel Management.) (1961). (I. of P. M., 21s.)
- The Prices of the several Stocks, Annuities and other public securities . . . from . . . March 26th, 1715, to . . . June 22nd, 1716; by John Freke. (1716). (Sotheby, £25.)
- The Principles and Practice of Farm Management Accounting; by C. A. Mallyon. Sydney. 1961. (Law Book Co of Australasia, 63s.)
- A Probate Handbook; by D. R. Le B. Holloway. (Solicitors Law Stationery Society, 30s.)
- Relax with a Smile; by C. K. Wright. 1960. (G. Allen & Unwin, 12s 6d.)
- Stevens' Elements of Mercantile Law; by T. M. Stevens: thirteenth edition by J. Montgomerie. 1960. (Butterworth, 21s.)
- Studies in Social and Financial Accounting: edited by Phyllis Deane. 1961. (Bowes & Bowes, 45s.)
- Taxation Policies in Relation to International Investment (International Chamber of Commerce.)
- The Thief in the White Collar; by N. Jaspán and H. Black. New York. 1960. (J. B. Lippincott, 41s.)

CHARTERED ACCOUNTANTS EMPLOYEES
SUPERANNUATION SCHEMEA Report of the Trustees to the Council of The Institute of
Chartered Accountants in England and Wales

1. The third edition of the CAESS explanatory booklet has now been published. The scheme (of which the annual accounts and the Committee's report were published in *The Accountant* of October 21st, 1961) has now been in existence for four years and its popularity with members, both as employers and as employees, is evident from its continuing growth.

2. CAESS is particularly valuable to employees because of the facility which it offers in accumulating retirement benefits notwithstanding changes of employment. Participating firms have found that membership of CAESS is an aid to the recruitment of staff and

several firms have entered CAESS in order to meet the needs of a prospective employee who is already a member of CAESS.

3. Small firms have found the scheme particularly attractive because it offers the stability of a large fund while catering within the limits of its rules for the particular needs and preferences of the individual firm, including simplified machinery for contracting out of the graduated State pension scheme if so desired. The extent of the interest of the smaller firms is apparent from the following table of the position at May 31st, 1961:

Number of pensionable employees	Number of firms in CAESS		Total
	London	Provinces	
Up to 4 ..	49	90	139 (65 per cent)
5 to 9 ..	17	28	45 (21 ")
10 to 14 ..	8	8	16 (8 ")
15 to 19 ..	6	3	9 (4 ")
20 and over	2	2	4 (2 ")
	<hr/> 82 <hr/>	<hr/> 131 <hr/>	<hr/> 213 <hr/>

4. Some larger firms are known to have hesitated over entry into CAESS because of possible difficulties over the treatment of existing private pension schemes. Many of the existing private schemes compare unfavourably with CAESS and in such circumstances the experience of the scheme secretaries in devising arrangements for absorption or closure of such schemes on entering CAESS is at the disposal of practising members without commitment.

5. The Trustees are in no doubt that CAESS offers important advantages to most practising members, whether their firms be large or small, and they hope that those who have not yet seriously considered the matter will consult the scheme secretaries.

S. H. GILLET, *Chairman,*

CHARTERED ACCOUNTANTS' TRUSTEES LTD,
TRUSTEES OF CAESS.

STANDARDS OF EDUCATION FOR ENTRY TO THE PROFESSION

Chartered Accountants' Dinner at Brighton

Speaking at a dinner of the South Eastern Society of Chartered Accountants at the Hotel Metropole, Brighton, on November 3rd, Mr A. S. Watson, F.C.A., President of the Society, said the profession must insist on a university standard of entrance. By this means the dignity which the profession once held in the eyes of careers masters and the teaching professionally would be restored. All the other professions had their faculties at the universities, he said.

Mr Watson praised 'The Law Society for issuing a booklet explaining all the services offered by solicitors, and said chartered accountants should press for the production of a similar booklet giving details of the many services that they, too, were qualified to give to their clients.

Several hundred accountants and their guests from Sussex, Kent, Hampshire and parts of Dorset and Wiltshire attended the dinner, at which there was a special toast to H.R.H. Princess Margaret and her baby son, born that morning.

The Leading Men in Industry

Sir Graham Cunningham, K.B.E., proposed the toast of 'The Institute of Chartered Accountants in England and Wales, and the Accountancy Profession'.

Nowadays, he said, all the leading men in industry seemed to be chartered accountants, and they were largely replacing the lawyers, whose skill, ability and integrity they, too, must possess.

The reason that the lawyers were now taking second place in commerce and industry was that they had given up the detailed and intensive study of such complicated things as income tax law and death duties.

Chartered accountants render a real service to their clients, for they have learned not merely to present balance sheets but to make figures 'talk'. Sir Graham added: "They do a most excellent job with skill and integrity, though a lot of their work is pedestrian, as it is in all professions."

The response was made by Mr Donald V. House, F.C.A., a Past President of the Institute and a member

of the Council, who was deputizing for the President, Mr P. F. Granger. Mr House spoke of the integration with the Society of Incorporated Accountants which, he said, had resulted in benefit to all concerned and an influx of 10,000 new members into the Institute.

Referring to public relations, Mr House said there was little news value in the profession - news has to be 'sad, sensational or thoroughly disgraceful'. The best advertisement for the profession lay in hard work, integrity and achievement of purpose.

Proposing the health of 'Our Guests', Mr F. Clifford Davey, F.C.A., welcomed members of the legal profession, the Inland Revenue, and presidents of district societies from many parts of the country, as well as the presidents of three students' societies. He added: 'Our efforts are aimed at co-operating with and furthering the interests of the business world and the community as a whole'. 'But,' he declared, 'necessity unfortunately forces us to send bigger bills for our services'.

Improved Presentation of Accounts

The reply was by Mr E. W. Gladstone, the new headmaster of Lancing College, who said that education and training concerned all professions. He understood that the accountancy profession was finding it difficult to recruit enough young men of the requisite standard, but the trouble was that every profession wanted the 'cream' and there was just not enough to go round.

He congratulated the profession on the marked improvement in the presentation of accounts - from the layman's viewpoint - which had taken place since the war.

'The South Eastern Society of Chartered Accountants' was proposed by Mr David McCarraher, who told the members with articulated clerks that if they were trained and treated properly then other young men would wish to join their number.

The profession, he added, owed a debt to Mr Watson for all his services as the South Eastern Society's President.

PROBLEM OF RECRUITMENT

President's Comments at Bristol Chartered Accountants' Dinner

The annual dinner of The Bristol and West of England Society of Chartered Accountants was held at the Royal Hotel, College Green, Bristol, on November 2nd, with Mr W. E. Dewdney, F.C.A., President of the Society, in the chair. There was an attendance of over two hundred members and guests.

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Ted Leather, M.P., and in his response Mr P. F. Granger, F.C.A., President of the Institute, said:

'It is a great pleasure to me to come to Bristol and to have the honour of replying on behalf of my Institute to the toast so ably and delightfully proposed by Mr Leather.

'I was very pleased to hear that the profession received some welcome publicity a few nights ago on the Brains Trust programme. Apparently the questioner had asked what was the appropriate job, provided he worked hard, to yield him a good living and prosperity at forty. A most eminent schoolmaster replied without hesitation - chartered accountancy - and this view was endorsed with slight reservations by another member of the panel; the third member expressed doubt. I have referred to this, not with the idea that every business man here should go home and start reducing audit fees (*laughter*), but to emphasize the opportunities that membership of the Institute gives to anyone who is prepared to work hard to qualify and to work harder afterwards.'

Entrants from the Universities

One of the problems facing the profession, said Mr Granger, was the necessity for recruiting first-class young men and women of the right type to the profession. They either came direct from school or from the universities and he went on to refer to the latter form of entry.

'As is known the undergraduate population of the universities is going to expand greatly in the next ten years, and this means that we must have more and more recruits from this source. This profession of ours through the variety of work done by its members, plays a substantial part in commercial life, especially in the widest sense and it is vital not only for us but for the country at large that we should have and train some of the best brains. The opportunities for the right young man were never so great. You have a great university here and I hope that as the years go by the local accountants will form closer and closer links with it. Speaking for myself alone, I do not think that it matters whether a boy qualifies in Greek, Latin or anything else within reason, provided he has the ability as a result of taking his degree to think clearly and to draw his conclusions from his thoughts.

'We are dedicated as a profession to a true and fair view of figures and accounts, whether we are in industry or in practice; this approach is of the essence of an academic discipline and therefore, as I say, we need the best minds we can get. There is a lot of thinking to be done on the nature of profit, in fact what is profit? and we need new minds to produce new textbooks and new ideas.

'It may be said that it is hard to expect a graduate with a good degree to start and work three years for what at times in some places is regarded as a small reward, but if he is prepared to tackle the exams and to work hard, he will have through his membership of the Institute, an entrée into business or professional practice almost anywhere in the

world - I exempt countries behind the Iron Curtain.'

In conclusion, the President said that he hoped the graduate would remember when he qualified that membership of the Institute was not limited to paying an entrance fee and an annual subscription. In these days there was more to the profession than that. He could join his district society, take part in its work, possibly in due course help some of the weaker brethren, and so on.

'Uphold Bristol's Traditions'

Mr H. Newton, F.C.I.S., a Past Chairman of the Building Societies Association and a member of the Council of the Association, proposing the toast of the 'City and County of Bristol', pointed out that he was a former resident of the city and said he had been waiting thirty years to say something about it.

He urged Bristol to keep its traditions and pageantry. 'You have a priceless heritage', he declared. 'See to it that you retain it for all time, against all comers'.

Bristol's Lord Mayor, Alderman Charles Smith, J.P., responded. He said those who had been associated with local government placed great value on the services of chartered accountants. He welcomed the fact that younger members were being encouraged that there were four ladies present at the dinner.

Mr W. E. Dewdney proposed the toast of 'Guests', and Alderman Marcus Hartnell, Sheriff of Bristol, responded.

The Company

Among those present were:

Professor Lloyd R. Amey, B.E.C., B.A., PH.D. (*Professor of Accounting, University of Bristol*); Messrs G. F. Ansell, F.C.A. (*Chairman, London and District Society of Chartered Accountants*); R. C. Barrett, F.C.I.S., F.C.A. (*Chairman, Bristol and District Branch, The Chartered Institute of Secretaries*); E. A. Bland, D.S.O., F.C.A. (*President, East Anglian Society of Chartered Accountants*); W. H. Cook (*President, Bristol Incorporated Law Society*); E. Cross, F.C.A. (*President, The Nottingham Society of Chartered Accountants*); C. Croxton-Smith, M.A., LL.B., J.P., F.C.A. (*Member of the Council of the Institute*).

Messrs L. F. Davies, F.R.I.C.S. (*Chairman, Gloucestershire, Somerset and North Wiltshire Branch, Royal Institution of Chartered Surveyors*); W. T. C. Edwards (*Chairman, Bristol Centre, Association of Her Majesty's Inspectors of Taxes*); W. V. Eggleton, F.C.A. (*Vice-Chairman, Gloucestershire Branch, The Bristol and West of England Society of Chartered Accountants*); C. A. Evan-Jones, M.B.E. (*Under Secretary, The Institute of Chartered Accountants in England and Wales*); J. C. G. Hill (*President, The Bristol Incorporated Chamber of Commerce and Shipping*); A. S. Kennard, F.C.A. (*Vice-Chairman, Exeter and District Branch, The Bristol and West of England Society of Chartered Accountants*); R. Leitch, A.A.C.C.A. (*President, Bristol and District Society, The Association of Certified and Corporate Accountants*); P. C. Lloyd, F.C.A. (*President, Liverpool Society of Chartered Accountants*).

Messrs C. J. Mason, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); T. B. Pritchard,

F.C.A. (Vice-President, *The Bristol and West of England Society of Chartered Accountants*); C. R. Riddington, F.C.A. (President, *The Leicestershire and Northamptonshire Society of Chartered Accountants*); Edgar T. Shepherd, F.C.A. (President, *South Wales and Monmouthshire Society of Chartered Accountants*); A. G. Thomas, F.C.A. (President, *Sheffield and District Society of Chartered Accountants*);

Lieut-Col A. W. Thompson, O.B.E., M.C., T.D. (President, *Bristol Centre, The Institute of Bankers*); Messrs F. Warren, F.C.A. (Chairman, *Cornwall and Plymouth Branch The Bristol and West of England Society of Accountants*); F. J. Weeks, F.C.A. (Member of the Council of the Institute); A. B. Wiggins, A.C.W.A. (President, *Bristol and District Branch, The Institute of Cost and Works Accountants*).

THE PROFESSION AND THE EUROPEAN COMMON MARKET

Scottish Chartered Accountants' Dinner in London

More than four hundred members and guests attended the forty-fourth annual dinner of the Association of Scottish Chartered Accountants in London, held at the Savoy Hotel on Monday. Mr T. G. B. Matheson, Deputy Convener of the London Local Committee of The Institute of Chartered Accountants of Scotland, and Acting Chairman of the Association, presided in the absence of Mr F. Booth, C.A., Chairman of the Association, who, Mr Matheson explained, had unfortunately been in ill health for the last month or so.

Proposing the toast of 'The Institute of Chartered Accountants of Scotland', Lord Brabazon of Tara, P.C., G.B.E., M.C., a noted, humorous after-dinner speaker, was in good form – at the expense of Scots and accountants!

Admitting his affection for 'our Northern tribes', Lord Brabazon provoked loud laughter when he described the Scots as a 'masochistic race who enjoyed being miserable'. It was Charles II, he added, who said that the Scots were never so admirable as in adversity. 'Where', he declared, 'but in Scotland could golf ever have been invented. It is the most horrible form of self-torture ever devised by man'.

'An Important Invisible Export'

Referring to accountants, Lord Brabazon said, amid laughter:

'You Scots are clannish, secretive and have very peculiar ideas. I can see some years ago a secret society meeting with strange rites, saying "Let us invent a parasitic profession and impose it on English industry. Let it be so involved and with a jargon of its own, so nobody except ourselves can understand it."

'The whole world has fallen for your fantastic ritual and it is now one of the greatest invisible exports of Scotland. Naturally they tried to copy this in the south, but you scored over them because nobody but yourselves could use the description "C.A.". With diabolical cunning they share in the prosperity of the world, but under depression they gorge on the carcasses of enterprises that have failed'.

Mr Graham A. Usher, M.B.E., T.D., C.A., President of the Institute, responding to the toast, thanked Lord Brabazon on behalf of some 'seven thousand miserable Scotsmen'. He thought it might be a good idea if they made Lord Brabazon an honorary member of the Institute, as they then could have the pleasure of hearing him reply as a member of the Institute. He continued:

Accountancy – An International Profession

'This has been a very busy year in the history of our Institute. There is no doubt about it, the whole accountancy profession throughout the world is very much on the move, and we are very much alive to our responsibilities. Accountancy is very much nowadays an international profession and ours is very much an international organization.

'We have, of course, a great problem right on our doorstep, that of the European Common Market. I do not know whether any of you give much thought to that. As accountants, it could affect us a very great deal. If we do not go into it, we may find ourselves terribly restricted, which might affect you very much down here with your close connections with the Continent.

'If we do go into it, one must be alive to that fact that one of the first objects of the Treaty of Rome is that labour should be encouraged to move freely and all restrictions on professions should be progressively abolished'.

Continuing, Mr Usher said this meant that, just as they expected to be able to continue carrying on their profession on the continent of Europe, other people would be coming to the United Kingdom to practise the same profession on probably much easier terms than those that obtained at present.

'This is obviously going to need a lot of liaison between the profession throughout the whole of Europe, with some sort of endeavour to establish one high standard of accountancy between the continent of Europe and ourselves. I am sure you would expect that we should take a live part in that.

'We may well have to change our ideas considerably', he declared. 'On the Continent, the practising accountant is prohibited from taking, in general terms, a post as a director of a company. That is a very common thing here. I think it is very much to the benefit of the companies and I am perfectly sure it is very much to the benefit of the chartered accountant.'

Mr Usher said this would probably lead to company laws having to be co-ordinated with those in Europe and this would be a very complicated problem, 'but well up the street of British accountancy bodies'. Such negotiations would be most interesting and he was sure that whoever was carrying them out, somewhere at the hub keeping an eye on all those ticklish matters would be some Scotsmen.

The Guests

The toast of 'Our Guests' was proposed by Mr W. S. Risk, B.COM.(EDIN.), C.A., F.C.W.A., Immediate Past President of The Institute of Cost and Works Accountants, to which Mr P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales, responded.

Electronics in the Office

Data Processing Centre for National Commercial Bank of Scotland

THE recent announcement by the National Commercial Bank of Scotland that a data processing centre has been established at its head office in Edinburgh, marks a further step in the bank's automation programme which was initiated last year. Up to the present time, over twenty of the bank's branches in Edinburgh have completed the preparatory work necessary for part of their routine record keeping to be transferred to the data processing centre: this includes current account and savings account book-keeping with its attendant interest calculations and also the preparation of payments required for customers' standing orders. Customers of these branches have been receiving cheque books with their name and the number of their account imprinted on the bank's ordinary cheque forms.

The installation consists of high-speed data processing equipment which automatically posts transactions to customers' accounts at a speed of up to 150 entries a minute. It also includes an electronic calculator which will compute interest and service charges in sterling at one hundred accounts per minute.

A novel feature is the arrangement by which the branches will receive daily a printed report showing the state of each customer's account when the branch opens for business. The layout of the form has been designed so that any account which requires attention is brought to the manager's notice immediately and he will also be able to survey the position of all accounts at the branch within a few minutes. In addition to processing the work of branches, plans will be developed to integrate at the centre the routine work of head office departments where large numbers of transactions, calculations or records are handled manually. A first step has been the preparation of salaries for head office and the major branches of the bank involving P.A.Y.E. and graduated pension calculations.

The present arrangements are only a first phase of the bank's plans. When the initial equipment is being used to full capacity the work will be transferred to an I.B.M. 1401 data processing system with high-speed magnetic tape units and this is expected to coincide with the completion of the extension to the head office building in which the computer will be accommodated.

Automatic Handling of Cheques

THE Clearing Banks have now agreed on the specification of the code line which is to be printed on cheques and other vouchers. This code line, which will appear in magnetic ink across the foot of cheques and vouchers, will contain the information necessary for electronic sorting and data processing.

Since the announcement last December relating to the typefont which the Clearing Banks had decided to adopt as the basis of their common machine language, the Electronics Subcommittee has been working on the dimensions, positioning and tolerances of the

characters along the code line. Their recommendations, which are being passed to printers and equipment manufacturers, require in general a cheque at least 6½ inches long, although the permissible deviations allow for a 6 inch cheque if such is required.

The code line, from left to right, will include the serial number of the cheque or voucher (by means of which the customer will be assisted in identifying the debit or credit on his statement of account), the bank and branch code number, the customer's account number, a transaction code number, and the amount of the cheque or voucher.

Experiments have been made into the type of paper most suited to automatic cheque-handling at high speeds. One form of practical test carried out within the banks has been the distribution to members of the staffs of cheque forms printed on paper of a new texture; these cheques have been given wide circulation and have been duly examined after they have passed through commercial accounting systems and the Bankers' Clearing House. This and other tests are continuing.

Electronic Centre for Coal Board

THE Scottish Division of the National Coal Board has placed an order with Associated Electrical Industries Ltd, worth more than £250,000 for a fully integrated data processing system incorporating the AEI 1010 digital computer.

The equipment, which will be installed by the end of 1962, is claimed to comprise the fastest computer of its kind available; it will handle wage and salary data of 90,000 people in 132 collieries, and other establishments. It will also undertake materials and supplies accounting, involving costing and processing of 14,600 stores items a day, and will record dispatch of 4,500 loads of coal a day.

Computer for London University

THE University of London is to install a new £2 million Ferranti Atlas computer towards the end of 1963.

The University of London computing system is the third Atlas to be ordered. The first is at present being assembled and commissioned at the University of Manchester and will be available for use early next year. A second has been ordered by the National Institute for Research in Nuclear Science, and will be in operation at Harwell in 1964. When these three machines are in operation, universities in Britain will have exceptional opportunities comparable to those available in the United States and elsewhere.

Initial support is being given to the University of London by the British Petroleum Company, which is providing approximately a quarter of the cost. In return British Petroleum will have an agreed amount of time on the London Atlas for a period of five years.

Responsibility for the University of London machine will be taken by the University's Computer Unit, which has been operating with a Ferranti Mercury Mark II computer since 1959.

The Atlas computer is not only expected to be nearly one hundred times faster than Mercury, but has a much greater capacity for handling numbers, and also has facilities for storing large quantities of data on high-speed magnetic tape units. The lack of magnetic tape facilities on the University's present Mercury installation has severely restricted work on problems requiring the analysis of data resulting from research studies.

Income Tax by Computer: Eire Government Order

THE Eire Revenue Commissioners have placed an order with International Computers and Tabulators Ltd for the company's latest data processing system – the I.C.T. type 1301 Electronic Computer.

The computer will undertake all income tax assessments for as many as a quarter of a million taxpayers, the automatic production of demand notes showing net amounts of tax payable, and tax allowance certificates.

A varied programme of calculating and statistical work is proposed for the computer. This will comprise accountancy responsibilities connected with imports and exports, drawbacks and dutiable items and/or special levies, as well as payroll production in respect of

3,000 departmental salaries and wages. Under the heading of 'vote accounting', the computer will be employed in calculating management expenses, together with costs and incidental expenditure.

First Order for New Document Processing System

INTERNATIONAL COMPUTERS AND TABULATORS LTD'S first order for the new National Data Processing Corporation's electronic document processing system has been placed by the National Provincial Bank. The National Data Processing Corporation of Dallas, Texas, are makers of document handling equipment designed for bank automation with whom I.C.T. concluded a long-term marketing and manufacturing agreement last May.

The bank is to rent equipment with a capital value of approximately £85,000 for initial use in sorting cheques to branch order and automatically listing the amounts encoded in magnetic ink. Experiments in cheque-sorting techniques are also envisaged. The equipment, which is to be installed in the bank's London clearing department late next year, will consist of a document processor and audit lister. Document encoders for printing magnetic ink characters on cheques will also be required.

The principal machine in the system is the document processor – basically a paper document sorter with eighteen pockets – which reads and sorts cheques at a constant speed of 1,200 documents a minute.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS HENRY ANSTEY, GROVER & Co, Chartered Accountants, of 14 Small Street, Bristol 1, announce the retirement after fifty years with the firm of Mr MAURICE R. GROVER, F.C.A. The practice will be carried on by the remaining partners, Mr JOHN BIRKETT, F.C.A., and Mr MAURICE NICHOLS, F.C.A., and Mr GROVER will continue to be available in a consultative capacity. They also announce that they have admitted into partnership MESSRS A. L. BARNETT, F.C.A., W. E. DEWDNEY, F.C.A., J. D. W. MARLE, F.C.A., and C. F. M. HAWKINS, A.C.A., who, together with Mr BIRKETT, are the Bristol partners of MESSRS HUDSON SMITH, BRIGGS & Co. The practice is being continued under the same name, but for administrative convenience the offices have been transferred to HUDSON SMITH, BRIGGS & Co's address at St Giles House, 11 Quay Street, Bristol 1. Telephone: Bristol 22108.

MESSRS BOYCE, WELCH & Co, Chartered Accountants, of Netherwood Chambers, 1A Manor Row, Bradford 1, and London, announce that Mr THOMAS CLIFFORD MAYHO, B.Sc.(ECON.), F.C.A., who has been with the firm for some years past, latterly as one of their principal managers, has been admitted into partnership as from November 1st, 1961. The name of the firm remains unchanged.

MESSRS FRANCIS S. CLARK & Co, Chartered Accountants, of Newton Abbot, Exeter and Teignmouth,

announce that as from November 1st, 1961, they have admitted into partnership Mr BRIAN CECIL WALKER, A.C.A.

Mr N. E. FRITH, F.C.A., practising as MESSRS PHILLIPS, FRITH & Co, Chartered Accountants, of 19 Duke Street, St Austell, Cornwall, and at Newquay and Bodmin, announces that as from November 1st, 1961, he has taken into partnership Mr T. J. THOMSON, F.C.A. The name of the firm will remain unchanged.

MESSRS GLASS & EDWARDS, Chartered Accountants, of 3 Stanley Street, Liverpool 1, announce that as from November 1st, they have admitted into partnership Mr MICHAEL DALZIEL DYE, A.C.A., who served his articles with the firm.

MESSRS WILFRID B. GOWERS & Co, Chartered Accountants, of Western House, 303 Western Bank, Sheffield 10, and Messrs DEAKIN, WEBSTER & Co, Chartered Accountants, of the same address, announce that they have amalgamated their practices as from November 1st, 1961. The combined practices are being carried on at Western House, 303 Western Bank, Sheffield 10, under the style of GOWERS, WEBSTER, LAW & Co. Mr WILFRID B. GOWERS, F.C.A., will be available by appointment only.

* MESSRS P. G. HESLOP & Co, Chartered Accountants, of Portland House, 73 Basinghall Street, London EC2, announce that Mr A. S. BENNETT, A.C.A., has relin-

quished his partnership in the firm as from November 1st, 1961, on which date he took up an appointment in industry. Mr P. G. HESLOP, F.C.A. and Mr J. S. HINER, F.C.A., will continue in partnership and the firm's name will be unchanged.

MESSRS WILLIAM PICKLES, JAFFE & Co, Chartered Accountants, announce that their address has now been changed to 427-433 Corn Exchange Buildings, Hanging Ditch, Manchester 4. Telephone: Blackfriars 8020.

MESSRS P. F. PIERCE & Co, Chartered Accountants, of 13 Cannon Street, Accrington, announce that Mr COLIN BERESFORD, A.C.A., who has been with the firm for several years, has been admitted a partner as from October 6th, 1961. The name of the firm remains unchanged.

MESSRS WILKINS, HASSELL & Co, Chartered Accountants, of 8 Queen Street, Cheapside, London EC4, announce that as from November 1st, 1961, they have acquired the practice of MESSRS COLLINS, WESTERMANN & Co, of Risborough House, Sycamore Road, Amersham, Bucks. The practice will continue to be carried on from the same address under the name of WILKINS, HASSELL & Co, and as from that date Mr DAVID G. WILKINS, A.C.A., and Mr H. W. S. WESTERMANN, F.C.A., have been admitted into the Amersham partnership.

MESSRS COLLINS, WESTERMANN & Co, of Risborough House, Sycamore Road, Amersham, announce that consequent upon the retirement of Mr TOM H. COLLINS, F.A.C.C.A., on October 31st, 1961, after thirty-nine years' professional service, the practice has been acquired by MESSRS WILKINS, HASSELL & Co, Chartered Accountants, of 8 Queen Street, Cheapside, London EC4.

MESSRS MAURICE E. BULLEY & Co, Accountants, of 30 Midgate, Peterborough (also of Oundle and Thrapston, Northants and Whittlesey, Cambs) and MESSRS AITKEN, BULLEY & Co, Accountants, of Red Lion Street, Spalding, announce that Mr FREDERICK C. J. BATT, A.A.C.C.A., A.T.I.I., and Mr LEONARD GLOVER, A.A.C.C.A., A.M.B.I.M., have been admitted into partnership with effect from November 1st, 1961.

MESSRS BOWMAN, BULLEY, YOUNG & Co, Accountants, of 174 New Bond Street, London W1, announce that Mr HAROLD J. YOUNG, F.C.A., retired from the firm on October 31st, 1961. The practice is being continued under the same name by the remaining partners Mr R. A. J. BOWMAN, F.A.C.C.A., and Mr MAURICE E. BULLEY.

Appointments

Mr Donald Caswell, F.C.A., formerly secretary of Inchcape & Co Ltd, has been appointed chief accountant of the group.

Mr D. O. Davis, F.C.A., has been appointed a director of Chiswick Products Ltd.

Mr James Percy Eames, O.B.E., F.S.A.A., F.I.M.T.A., City Treasurer of Birmingham, has been appointed a director of Page-Johnson Builders Ltd.

Mr Geoffrey S. Palmer, A.C.A., has joined James Booth Aluminium Ltd, Birmingham, as chief accountant.

OBITUARY

Stanley William Sykes, F.S.A.A., F.I.M.T.A.

We record with regret the death on October 22nd, at the age of 57, of Mr Stanley William Sykes, F.S.A.A., F.I.M.T.A., borough treasurer of Margate.

Mr Sykes was admitted to membership of The Institute of Municipal Treasurers and Accountants in 1927 and became a member of the former Society of Incorporated Accountants in 1936. He commenced his career in local government with Hammersmith Council in 1920 and subsequently served with Folkestone, West Riding, Wallasey and Rochdale councils. He had been borough treasurer of Margate since 1944.

Mr Sykes held a number of appointments within the borough including treasurer to the Thanet Water Board, secretary and treasurer of the Lest-We-Forget Association and was a member of the committee of the Trustee Savings Bank.

George Veitch, C.A.

It is with regret that we record the death on November 3rd, at the age of 74, of Mr George Veitch, C.A., former managing director of the North British Distillery Ltd.

Admitted a member of the former Society of Accountants in Edinburgh in 1915, Mr Veitch served in the First World War with the Royal Scots rising to the rank of captain, and was wounded in 1918.

Apart from many active business responsibilities, Mr Veitch willingly gave much of his time to public organizations. He served as president of the Benevolent Institution of the Wine and Spirit Trade for twenty-one years and was a member of the Council of the Scotch Whisky Association. In 1948, he was appointed chairman of the Leith Docks Commission and was elected President of the Edinburgh Chamber of Commerce in 1952.

Christopher Charles Paus, F.C.A.

We have learned with regret of the sudden death on October 20th, at the age of 52, of Mr C. C. Paus, F.C.A.

Educated at Repton, he served articles with J. Heselton & Sons, of Bradford, and was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1933.

Since 1953, Mr Paus had been in the service of British Tabulating Machine Co, now I.C.T. Ltd, and was known to many members of the profession through his connection with that company's liaison service with accountants.

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REVALUATION OF ASSETS

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F.C.A. LIMITED**Protection of Designatory Letters**

A new private company, F.C.A. Limited, has recently been registered with a share capital of £100. The principal object of the new company is to protect the designation 'chartered accountant' and the designatory letters 'F.C.A.' for the benefit of the members of the company and such other persons as, being members of the Institute of Chartered Accountants in England and Wales, are entitled to use that designation and those designatory letters. Membership of the company is confined to The Institute of Chartered Accountants in England and Wales, and any member or officer of the Institute.

FAMILY ALLOWANCES**New Earnings Limits for Apprentices**

A number of alterations to the National Insurance, Industrial Injuries and Family Allowances Acts are contained in a Family Allowances and National Insurance Bill which was presented to Parliament last week by the Minister of Pensions and National Insurance.

At present a person between 15 and 18 who is having full-time training in an apprenticeship (which term includes articled clerks) can qualify his parents for family allowance if his earnings, to use the words of the Act, do not 'provide him, wholly or substantially, with a livelihood'. This dependency test is now to be brought in line with that which broadly applies under insurance schemes, which provides that a person no longer be treated as a dependant if his net earnings exceed £2 a week. This limit will replace the one laid down by the National Insurance Commissioner in his interpretation of the words of the Family Allowances Act. In a leading decision given last year referred to in *The Accountant* of September 17th, 1960, the then Commissioner laid down limits between £4 and £4 10s a week, varying according to age.

The Bill contains a number of other provisions, including increased supplements of certain workmen's compensation payments, improved arrangements for retirement pension increments which will apply to certain women who become widowed after their husband's deferred retirement, and a widening of the scope of the Industrial Injuries Acts to cover accidents which occur in the course of a person's employment if they are not at present covered because they result from 'common risks'. In addition, self-employed and non-employed people with incomes of less than £208 a year will be able to be excepted from their liability for family insurance contributions; the limit is at present £156. Also, the earnings limit for low wage earners, below which the employer has to bear a larger proportion of the contribution than otherwise, is raised similarly from 60s to 80s a week.

DOUBLE TAXATION AGREEMENTS**Pakistan**

The double taxation agreement between the United Kingdom and Pakistan which was signed in London on April 24th, 1961, was published on November 2nd, last, as a schedule to a draft Order in Council.

The agreement provides for the avoidance of double taxation of income and profits, and is expressed to take effect in the United Kingdom from April 6th, 1960. It replaces the agreement signed on June 10th, 1955.

Portugal

The double taxation agreement between the United Kingdom and Portugal for the avoidance of double taxation of shipping and air transport profits which was signed in Lisbon on July 31st, 1961, was published on November 2nd, last, as a schedule to a draft Order in Council. It is expressed to take effect from April 1st, 1952.

Japan

The Inland Revenue announce that following earlier discussions in 1956 and 1959, negotiations for a double taxation convention between Japan and the United Kingdom were held in Tokyo from October 23rd to November 7th. Agreement was reached at the official level, subject to further consideration of certain points. A draft convention was initiated accordingly.

DISTRIBUTION OF GERMAN ENEMY PROPERTY

The Board of Trade has announced that in accordance with the Distribution of German Enemy Property Act, 1949, and Orders made thereunder, the Administrator of German Enemy Property is to pay a fourth and final dividend of 2½d in the £, bringing the total dividend to 3s 0½d.

This dividend will be paid to persons who received the third dividend. Claimants who did not participate in the administrator's general fund, but who received a higher rate direct from their creditor's assets are not entitled to further payment, except where the dividend already paid amounted to less than 3s 0½d in the £, in which case an additional payment will be made to bring previous payments up to that figure.

It is hoped to commence payments later this month. Application for payment is not necessary unless the person who received the third dividend has since changed his address. If the person has since died so that payment is due to his legal personal representative, it would assist the administrator if he could be notified at Lacon House, Theobald's Road, London WC1.

An Order in Council (Distribution of German Enemy Property (No. 4) Order, 1961) now published enables the administrator to make this further distribu-

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tion. This Order also enables the administrator to make available from the residue of realized assets, sums not exceeding £70,000 for victims of Nazi persecution who were unable to leave Romania, Hungary or Bulgaria in time to qualify for *ex gratia* release of their assets in this country under the arrangements formerly existing. Copies of the Order (S.I. 1961 No. 2030) are available from H.M. Stationery Office, price 4d, by post 6½d.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

Luncheon Meeting

A luncheon meeting of the London and District Society of Chartered Accountants will be held at the Connaught Rooms, Great Queen Street, London WC2, on Monday, November 20th, at 12.30 for 1 p.m., when Mr G. Ewart Thomson, chairman of Lloyd's, will be the guest speaker.

WOMEN CHARTERED ACCOUNTANTS' DINING SOCIETY

The annual dinner of the Women Chartered Accountants' Dining Society will be held at the Connaught Rooms, Great Queen Street, London WC2, on Friday, December 1st, at 7 p.m. for 7.30 p.m. The hon. secretary is Mrs N. L. Kew, A.C.A., c/o de Paula, Turner, Lake & Co, Chartered Accountants, Imperial House, Dominion Street, London EC2.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Next Week's Meetings

The following meetings of the London Students' Society will be held during the next week:

Monday, 5.30 p.m. at the Institute, Moorgate Place, EC2. Lecture on 'Planning your career in accountancy,' by Mr R. J. Carter, B.COM., F.C.A., secretary of the Students' Society.

Tuesday, 6 p.m. at the Institute: Debate on the motion 'The Conservative Party have held office too long'.

Wednesday, 6 p.m. Lecture and demonstration of National Accounting Machines (limited number).

Afternoon, at Chelmsford: 'Income tax - relief from losses', by Mr H. W. May, B.A., F.C.A.

Thursday, 5.15 p.m. at the Institute: Introductory course lecture on 'Company law', by Mr P. W. Medd, Barrister-at-Law.

7.15 p.m. at Reading: Lecture on 'Company law', by Mr S. G. Maurice, Barrister-at-law.

Friday, 5.15 p.m. at the Institute: Introductory course lectures on 'Audit practice and methods', by Mr W. K. Wells, B.A., F.C.A., hon. treasurer of the Students' Society, and 'The law of banking', by Mr P. W. Medd, Barrister-at-law.

6 p.m. at Ilford: Lecture on 'Layout of profit and loss account and balance sheet', by Mr B. Rose, B.E.M., F.C.A.

The London Articled Clerk's Diary for 1962 may now be bought at the library (price 3s 6d, by post 4s).

THE INSTITUTE OF INTERNAL AUDITORS

Audit Assistants' Lecture Course

The London Chapter of The Institute of Internal Auditors is holding a course on internal auditing for members' assistants during November and December. There will be four discussion meetings and a talk on, and demonstration of, electronic computers. Details are as follows:

November 13th: 'Modern trends in internal auditing', by Mr S. A. Cropper, F.C.A., Fisons Ltd. (President of the Chapter.)

November 20th: 'A new look at auditing - the statutory auditor's point of view,' by Mr R. F. Sumner, F.C.A., partner, Cooper Brothers & Co, Chartered Accountants, of London.

November 27th: 'Internal audit of capital projects', by Mr A. L. Watson, Central Electricity Generating Board.

December 4th: 'Marketing today', by Mr F. L. Parry, Marketing development manager, Birds Eye Food Ltd.

December 11th: Talk on, and demonstration of, I.B.M. electronic computers, introduced by Mr R. Bradford, I.B.M. (United Kingdom) Ltd.

Further information regarding the course may be obtained from the Secretary of the Chapter, Mr J. Protheroe, c/o The British Oxygen Co Ltd, Bridge Water House, Cleveland Row, London SW1.

Manchester Chapter

The Manchester Chapter of The Institute of Internal Auditors is holding its next meeting on Tuesday, November 21st, in the Chartered Accountants' Hall, 46 Fountain Street, Manchester 2, when Mr R. B. Hyde, A.C.A., audit officer, British Road Services Ltd, North-West Division, will address the Chapter on 'Internal auditing in practice - the scope of my job'.

A cordial invitation is extended to prospective new members, and further information regarding the activities of the Chapter may be obtained from the secretary, Mr K. Bradley, assistant internal auditor, The Associated Octel Company Ltd, Northwich, Cheshire.

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Alternative to Planning?

THE state of the British economy has for some time past given cause for concern. Critics have referred to the failure of output to expand at a rate comparable with the levels achieved by the Common Market countries; they have complained of the failure of industry to invest adequately in new and more efficient plant, while the Government has pin-pointed the disappointing export performance. In face of this spate of criticism, spokesmen for industry have been surprisingly reticent. Last week, however, MR S. PAUL CHAMBERS, chairman of I.C.I., took up the cudgels on behalf of his fellow industrialists in the course of his address to the annual conference of the Institute of Directors. 'British industry', he declared, 'is more productive than at any time in its history.'

It has been well said that the primary function of Government is to govern. In economic affairs the least it can do is to create a climate in which industry and the economy in general are enabled to function efficiently. In this respect the present administration would appear to have failed. 'I have', declared MR CHAMBERS, 'no faith in exhortation to industry to export more, or to be more progressive and to wake up. . . Planning is not a substitute for a sound economic policy; it cannot solve basic economic problems.' 'If', he continued, 'the economic policy of the Government is right, then each member of the team finds out pretty quickly that it is in his own interest to play his part.'

According to MR CHAMBERS, the Government's present policy is deficient in a number of respects. First, and overriding all other considerations, was the failure of any post-war Government to achieve an overall Budget surplus. MR SELWYN LLOYD's last Budget came nearest to achieving this, but until Government expenditure on capital and revenue account is kept firmly within the bounds set by revenue, the inflationary pressures which have led to over-full employment and balance of payments crises cannot be restrained. A major contributory factor to the inadequate budgetary policy is the Government's attitude to the nationalized industries. Large capital sums have been provided for investment without adequate regard to the prospective rate of return; in consequence there has been a misallocation of scarce economic resources. The same profligacy had permitted wage levels in those industries to rise excessively; in MR CHAMBERS' view, this was the 'soft under-belly' of the whole wages problem. Any subsidies and protection to dying and contracting industries simply raised the costs of industry as a whole and reduced the country's competitive power in overseas markets. Such a policy was based 'upon a

sentimentality which hesitates to recognize the changing facts of economic life', declared MR CHAMBERS.

These strictures on the Government's economic policy would be endorsed by many critics almost as enthusiastically as they were applauded by MR CHAMBERS' audience. How far his positive suggestions for an alternative policy would find support among the public, or for that matter industry, is a matter of opinion. MR CHAMBERS' thesis is basically a simple one. The spur of competition is such that both in the markets for goods, and for labour at all levels, it will ensure that the rewards go to the efficient. In a competitive economy, resources will move in response to changing demand; the expanding progressive industries will absorb the labour and other resources which the contracting and decaying industries are shedding. For an economy as dependent upon overseas markets as is the British, mobility of resources in response to continuously changing demand 'should not be obstructed on sentimental grounds'. Following the same line of thought, MR CHAMBERS contends that the tax system should 'avoid penalties on

initiative and enterprise such as the profits tax which, to MR CHAMBERS' surprise, a Conservative administration had raised to an all time record level. The elaboration of fiscal legislation which had resulted from the host of unco-ordinated changes made by Ministers 'who have tackled tax problems superficially and piecemeal' should be replaced by a return to basic principles.

That competition possesses many of the virtues which MR CHAMBERS attributes to it, can hardly be denied. It should not be forgotten, however, that in the past the most vocal critics of 'cut-throat competition' have been found in the ranks of industry. Even MR CHAMBERS demands anti-dumping legislation to protect domestic producers, although consumers might be only too pleased to enjoy the benefits of such cut-price goods. MR CHAMBERS is right, however, to stress that we cannot insulate our lives and living standards from external economic forces. The British economy will be able to meet the challenge more easily if it can impose upon both labour and management the pressures and incentives of a competitive market economy.

Tax on Employees' Benefits

THE observation that income tax is a tax on income, although made nearly sixty-one years ago, is still apt. Eighteen years earlier its author, LORD MACNAGHTEN, had made some equally pithy observations about an attempt by the Inland Revenue to tax a bank manager on the annual value of the flat which he was required to occupy at the bank.

In making this attempt the Inland Revenue were clearly influenced by the fact that the annual value of the living accommodation was not being taxed at all, since the bank was entitled to deduct the annual value of the whole premises as an expense. Taxpayers in general have not been slow to take advantage of the principle thus laid down by *Tennant v. Smith* (3 T.C. 158) and many methods were evolved whereby traders incurred deductible expenses in providing for their employees, and their directors, handsome benefits which were not income in the hands of those who enjoyed them. The then existing tax system pro-

vided three brakes on this process. If the employee uses his employer's premises for his own purposes in such circumstances that he is the 'occupier' for Schedule A tax purposes, then he pays the Schedule A tax. In the second place, anything, whether tangible or intangible, which the employee can turn into money and which comes to him by virtue of his employment is an emolument, taxable on its value at the time the employee becomes entitled to it. Thirdly, where the employer discharges a pecuniary liability of the employee, and by way of remuneration, then the money applied in discharging that liability is also taxable as an emolument.

This last principle rests mainly on *Nicoll v. Austin* (14 A.T.C. 172). There, a company bound itself to pay the rates, taxes, insurance, and the cost of the gas, electricity and telephone at a large house owned and occupied by its life governing director. The company was also to maintain the house and gardens. All this was part of the govern-

ng director's service agreement and was in consideration of his continuing to reside at the house 'for the convenience and prestige of the business of the company'. Presumably the payments made by the company were deducted in its own profits computation. In any case, the background to the director's appeal against a Schedule E assessment on these payments was not calculated to place him in a sympathetic light.

JUSTICE FINLAY had no difficulty in overruling the Commissioners' decision that the payments were not assessable emoluments. He relied on two cases where 'tax free' remuneration was taxed on the gross amount, on cases which established that a life-tenant under a trust must pay surtax on admitted income applied for the life-tenant's benefit, and on a case where a director was taxed on the market value of share options given to him. In each case the analogy was a little shaky, but the taxpayer did not appeal from the decision, which is unlikely to be overruled now.

Given that the payments were assessable, FINLAY, J., rejected the argument that they were expenses incurred wholly, exclusively and necessarily in the performance of the duties.

Wartime taxation gave a fillip to schemes which were framed to avoid the above decisions. In turn these schemes brought about legislation in 1948 which is now enshrined in Sections 160-168 of the Income Tax Act, 1952. This legislation attacks the practice of giving 'expenses allowances' by, in effect, laying upon the employee the onus of showing that such allowances have been expended 'wholly, exclusively and necessarily in the performance of the duties'. The main target of the legislation is, however, 'benefits in kind'.

Section 161 (1) taxes on the employee the expense incurred by the employer 'in or in connection with the provision, for [the employee] of living or other accommodation, of entertainment, of domestic or other services or of other benefits or facilities of whatsoever nature', in so far as this is not already taxed under the general Schedule E rules. Subsection (2) exempts from the subsection expenditure on accommodation etc. in the employer's business premises and used solely in the performance of the employee's duties.

Among other exemptions from Section 161 (1) is that conferred by Section 161 (3) for the benefit of employees (not directors) where one of the two following conditions is satisfied:

- (a) accommodation is provided in accordance with a practice commonly prevailing in trades of the class in question as respects employees of the class in question, since July 30th, 1928; or
- (b) it is necessary, in trades of the class in question, that employees of the class should reside in premises of the class.

The exemption is confined to expenses incurred by the employer 'in or in connection with the provision of living accommodation for an employee in any part of its business premises which include living accommodation if the employee is, for the purpose of enabling him properly to perform his duties, required by the terms of his employment to reside in the accommodation'.

What does 'in or in connection with the provision of living accommodation' mean? Presumably more than 'in the provision of living accommodation'. But very little more, in view of the decision of MR JUSTICE CROSS announced last week in *Butter v. Bennett*¹. His lordship decided that these words must be construed to mean the expenditure necessary to provide and maintain some immovable property as a residence. They did not extend to the cost of supplying coal, electricity and the services of a gardener. He expressed himself as driven to this rather narrow construction by reason of the difficulty of deciding where to draw the line if expenditure was to be exempted.

The Revenue's attitude in the above case could hardly be said to be foreshadowed in the explanatory notes issued by them last August. Paragraph 13 of those notes, headed 'Living Accommodation', says that the employee must pay tax on the total amount of expenses incurred by the employer 'in providing the accommodation and any benefits or facilities connected with it'. It goes on to say that the expenses 'may include rent and rates, repairs, decorations, maintenance and insurance, heating and lighting, upkeep of gardens and domestic or other services'.

The notes go on to deal with Section 161 (3) by saying briefly that 'the benefit of living accommodation' is not taxed if the requirements of Section 161 (3) are satisfied. One might be pardoned for thinking that the Inland Revenue took the view that heat and light were indeed 'in connection with the provision of living accommodation', which is how the Special Commissioners understood it in *Butter v. Bennett*.

¹ *The Times*, November 7th, 1961.

The Decline in Invisible Earnings

BRITAIN'S overseas trade in 1961 differs in many respects from that of pre-war days, but in no single particular is the difference more pronounced than in the relation between visible and invisible earnings. Thus, in 1938, which was a poor year economically speaking, the f.o.b. value of exports was £533 million. This sum represented only 64 per cent of imports (on a f.o.b. basis). Invisible earnings amounted to £232 million, or 44 per cent of exports, and there was a deficit on current account of £70 million. In 1960, the f.o.b. value of exports was £3,712 million and this paid for 90 per cent of imports. Invisible earnings, however, brought in only £59 million, i.e. less than 2 per cent of exports. The deficit on current account was very large - £339 million. In pre-war days, invisible earnings paid for about two-thirds of Britain's food imports. Since that time they have bought a steadily diminishing portion of such imports until they now buy only a small part of them. The virtual disappearance of invisible earnings is greatly adding to the difficulties of achieving a surplus on current account. As recently as 1958, invisibles yielded £285 million in a year in which visible trade was in surplus for the first time this century - to the extent of £35 million.

Balance-of-payments accounting in pre-war days was not nearly so precise or detailed as nowadays, but it is possible to make some comparisons provided that these are not pressed too far. Net shipping earnings in 1958 amounted to £20 million. Last year, outgoings for shipping services exceeded income by £58 million. Interest, profits and dividends earned overseas produced a net surplus of £175 million in 1938 and £238 million in 1960. 'Other' earnings were estimated at £65 million in 1938 compared with £180 million last year, but the content of this item is not exactly the same as before the war. These earnings now include net earnings from civil aviation services, City earnings, and overseas earnings of oil companies. The most recent official estimate of City earnings put them at £125 million gross in 1956 and this sum is probably commensurate with pre-war earnings.

Net outgoings on foreign travel were estimated at £12 million in 1938 and £17 million last year.

Net Government expenditure was £16 million compared with £284 million. Foreign travel is now relatively speaking less of a drain on invisible earnings than before the war, but Government expenditure is a far greater one. There are, of course, military and economic reasons for this. Of the £284 million Government expenditure overseas in 1960, £213 million was on military account. The balance is made up of economic grants of various kinds and diplomatic and administrative expenses including pensions. Last year nearly £70 million was paid out in economic grants, mainly to under-developed parts of the Commonwealth. In arriving at this net expenditure, some receipts on military account, mainly expenditure by U.S.A. and Canadian Forces in Britain, have been taken into account.

Invisible earnings fell by nearly £240 million between 1958 and 1960. Government expenditure rose during the two years, a small surplus in shipping earnings was turned into a deficit, and interest, profits and dividends earned overseas declined. Little improvement can be expected in 1961. The latest White Paper on the subject, giving the half-year's balance of payments figures (commented upon in our issue of October 21st), estimates that in the first half of this year invisible earnings amounted to £25 million - about half that of the corresponding period of 1960. Whilst it would be unduly pessimistic to suggest that invisibles are not likely to recover to their 1958 level, the chances of this during the next two or three years are not very bright. The decline in shipping earnings has been due to a steady fall in the proportion of the world's carrying trade undertaken by British ships. Oil imports have been growing rapidly in recent years and a significant proportion of these are carried in foreign ships chartered to British companies. Whilst interest, profits and dividends have recovered from the low point they reached at the end of the war, outgoings are now tending to grow faster than income. Economic grants to under-developed countries may be stabilized at their present level, while relief from the present level of military expenditure overseas may come from some form of burden-sharing - there is certainly plenty of room for this.

Hazards in Hire-purchase

CONTRIBUTED

In this article the writer discusses the true nature of hire-purchase agreements, examines some recent decisions of the Courts which high-light anomalies in the law, and suggests amendments of the Hire-purchase Acts which would afford better protection for hirers over a wider range of goods

THE householder who 'buys' his motor-car, bedroom suite or television set through the medium of hire-purchase usually believes he is buying the goods by instalments directly from the dealer concerned; that the ownership of the goods vests in him on delivery, and that the position of the finance company in the transaction is solely that of a lender of money. This popular conception is entirely erroneous and is probably explained by the fact that most people do not trouble to read the hire-purchase agreements they enter into, and would be little the wiser if they did. Legally, hire-purchase is something quite different – a hybrid of a simple hiring and a sale, 'invented' to give the finance company security for its money. This it achieves by preventing the hirer from passing a good title in the goods to a third party until he has paid all instalments due under the agreement, and (strictly) has exercised an option to purchase the goods.

What happens in practice is that the shop-keeper or dealer *sells* the goods in question to a finance company, which thereupon becomes the legal owner of the goods. The finance company (referred to as 'the owner') *hires* the goods to the customer of the dealer (referred to as 'the hirer') at a rent much in excess of their true rental value, but gives the hirer an option to buy the goods at the end of the hiring term for a nominal sum, usually £1. Accordingly, until all instalments of the hire have been paid and the hirer exercises the option to purchase the goods, the owner retains the title to the goods.

Although three persons are thus concerned in hiring about the hire-purchase transaction (the dealer, the owner and the hirer), only two of them (the owner and the hirer) will be parties to the agreement. A guarantor may, however, be a third party to the agreement, or there may be a 'recourse agreement' under which the owner has recourse to the dealer when all remedies against a defaulting hirer have been exhausted.

The Agreement

The essential terms which distinguish a hire-purchase agreement from any other agreement are (i) a clause by which the owner agrees to let and the hirer agrees to hire the goods, (ii) a

clause giving the hirer the right to determine the hiring and return the goods at any time before the final instalment under the agreement falls due, and (iii) a clause giving the hirer the right or option to purchase the goods for a nominal sum at the end of the hiring. If the hire-purchase price does not exceed £1,000 in the case of an agreement relating to livestock or £300 in any other case, the hirer is protected by the Hire-purchase Acts, 1938 and 1954, and there must be a note or memorandum of the agreement signed by the hirer and by or on behalf of all other parties to the agreement. This memorandum must satisfy certain statutory requirements as a condition of the owner's right to enforce the agreement, but the Court may dispense with these requirements in some circumstances.

Whether the agreement is within or outside the Acts, it invariably provides that the owner may also determine it, for breach of contract (such as failure to pay the instalments as they fall due) or on the death or bankruptcy of the hirer. And whether the agreement is determined by the owner or the hirer, the owner becomes entitled to re-take the goods, save that, if the owner (but not the hirer) has terminated the hiring and the hirer has paid one-third of the hire-purchase price, he can only do so through the Court.

Since the goods will normally have depreciated in value when the agreement is terminated, the hirer is usually required, as well as giving up possession of the goods, to pay to the owner the amount, if any, by which one-half (or more, if the agreement is outside the Acts) of the hire-purchase price exceeds the total of the sums paid and the sums due in respect of the hire-purchase price immediately before the termination. And, quite often, this fraction of the total hire-purchase price is the same at whatever stage and for whatever reason the hiring is terminated. As will be seen later, a payment of this nature can be a fruitful source of trouble, giving rise to difficult questions whether or not, in the circumstances of the case, it is a penalty and therefore unenforceable. On the other hand, subject to the terms of the agreement, the owner may simply sue for the arrears and allow the hiring to continue.

Further difficulties arise when there are defects

in the goods hired. If the transaction is within the Hire-purchase Acts, two conditions as to quality are implied: (i) that the goods (unless second-hand) are of merchantable quality, except for defects of which the owner could not reasonably have been aware when the agreement was made and defects which an examination of the goods or a sample of them by the hirer ought to have revealed; and (ii) that the goods are reasonably fit for the particular purpose for which the hirer makes it known that he wants them. But this second condition may be expressly excluded by the owner if it is brought to the notice of the hirer and its effect is made clear to him before the signing of the agreement. In cases outside the Hire-purchase Acts the common law implies a condition that the goods are reasonably fit for the purpose for which they are let, except for apparent defects; but almost always such implied conditions are excluded by the agreement, which generally provides that the dealer is not the owner's agent, so as to prevent the owner being sued for his misrepresentations.

Determination by the Owner

Two of the cases referred to below show that the minimum payment to be made by the hirer on the termination of the hiring by the owner, because of the hirer's default, was a penalty and irrecoverable. The distinction between a 'penalty' and 'liquidated damages' was considered by the House of Lords in *Dunlop Pneumatic Tyre Co Ltd v. New Garage & Motor Co Ltd* ([1915] A.C. 79), where Lord Dunedin said:

'The essence of a penalty is a payment of money stipulated as *in terrorem* of the offending party; the essence of liquidated damages is a genuine covenanted pre-estimate of damage. . . . It will be held to be a penalty if the breach consists only in not paying a sum of money, and the sum stipulated is a sum greater than the sum which ought to have been paid.'

In the first of these cases – *Cooden Engineering Co Ltd v. Stanford* ([1952] 2 All E.R. 915) – the defendant hired a second-hand motor-car from the plaintiffs over a term of thirty months for the sum of £412 7s 6d, with an option to purchase the vehicle at the end of the term for 10s. The agreement provided (*inter alia*) that if the hirer committed a breach of any of its terms or died or became bankrupt, the hiring was to be determined and the whole of the remaining instalments were to become payable. The motor-car remained in the possession of the hirer for two years, during which period he paid, in addition to a

deposit of £25, seven monthly instalments of £12 18s 3d. The owners determined the agreement, retook possession of the car and claimed the unpaid balance of the total hire-purchase price amounting to £297. The hirer contended that the sum claimed was a penalty since, under the agreement, the owners were entitled to receive the full price of the car in addition to the car itself.

The Court of Appeal, by a majority decision, upheld this contention on the ground that, except where the car had become completely valueless, the minimum payment clause would enable the owners to do better out of a defaulting hirer than out of one who carried on with the hire. It appearing, however, that the hirer would have no defence to a claim for the sums actually in arrear, judgment was entered for that amount on the owners undertaking to make no further claim under the agreement.

In *Landon Trust Ltd v. Hurrell* ([1955] 1 All E.R. 839), the total price payable for a second-hand car was £558 3s, of which £525 was the price of the car and £33 8s the finance charge. The minimum sum payable by the hirer on breach of the agreement was £425, or approximately three-quarters of the total hire-purchase price. The hirer paid a deposit of £175 and subsequently paid the first four of twelve monthly instalments of £31 9s, making a total payment of £302 16s. He failed to pay the fifth instalment, and the owners retook and sold the car for £270, thus making a total sum received by them of £572 16s. The owners sued the hirer and his guarantor for a further £122 4s, being the difference between £425 and the hirer's payments of £302 16s. Following the decision in *Cooden Engineering Co Ltd v. Stanford*, it was held that the minimum payment was a penalty and not a genuine pre-estimate of damage, so that the claim failed.

In both the above cases the hiring had been determined by the owner because of the hirer's failure to pay the instalments as they fell due. It seems that where the hiring is terminated because of the death or bankruptcy of the hirer, the position is not affected by the decision in the *Cooden* case, and the minimum payment clause will not be questioned. In the *Cooden* case Somervell L.J., said:

'If anyone desires to argue that the conclusion should be different in the case of deaths or an event such as bankruptcy or liquidation, so far as my judgment is concerned, I desire to make (it) clear that that point is open.'

By contrast with the two previous cases, the

decision in *Yeoman Credit Ltd v. Waragowski* ([1961] 3 All E.R. 145) was favourable to the owners. In that case the total hire-purchase price of a van was £434 7s (including a finance charge of £74 7s). The hirer paid a deposit of £72 and undertook to pay thirty-six monthly instalments of £10 0s 9d. There was also a further payment of £1 to be made if he exercised the option to purchase the vehicle. In fact, he made no payment beyond the deposit. A clause in the agreement provided as follows:

'Should the hiring be terminated by the hirer or the owner, then . . . the hirer shall forthwith pay to the owner damages for breach hereof (if any) and either (a) such further sum as with the total already paid by the hirer by way of first payment and rentals shall equal one-half of the hire-purchase price as agreed compensation for depreciation of the goods or, at the option of the owner, (b) the amount of the rentals and other moneys then already due hereunder together with such further sums as would if the hiring had not been terminated have been payable in respect of rent during the period (if any) between the termination of the hiring hereunder and the return of the goods to the owner.'

The owners terminated the hiring and retook possession of the van which they sold for £205. They obtained judgment for £60 4s 6d arrears of instalments under paragraph (b) of the clause and damages for breach of contract under the main part of the clause, which were assessed as follows:

Total hire-purchase price of car	£	s	d	£	s	d
				434	7	0
Deduct:						
Option money		1	0	0		
Deposit		72	0	0		
Proceeds of sale of car	205	0	0			
Arrears of instalments (for which judgment obtained)		60	4	6		
				338	4	6
Damages for breach of contract				£96	2	6

In effect, therefore, the owners recovered the total hire-purchase price, less £1, and less the proceeds of sale of the car. The hirer appealed to the Court of Appeal against the award of damages for breach of contract, but no question arose regarding the £60 4s 6d. The Court held that damages were recoverable for breach of the agreement, the owners' remedy not being merely one for recovery of money not paid, nor a claim for depreciation, but lying in damages for breach of contract by the hirer. Naturally, this important decision will not be overlooked by the finance companies.

Determination by the Hirer

Where the agreement is terminated by the hirer, the decision in *Cooden Engineering Co Ltd v. Stanford* does not apply. In *Associated Distributors Ltd v. Hall* ([1938] 1 All E.R. 511) – which was decided before the *Cooden* case – the subject-matter of a hire-purchase agreement was a tandem bicycle. The agreement made provision for a minimum payment of one-half of the price of the bicycle if the hiring was determined for any cause whatsoever by either owner or hirer. The hirer determined the agreement and contended that the minimum payment clause imposed a penalty, but the Court of Appeal held that as the hirer had exercised an option given to himself by the agreement to determine it, no question as to whether the payment was a penalty or liquidated damages could arise, and he was liable to make the payment stipulated for in the agreement.

A similar decision was reached by the Court of Appeal this year in the notable case of *Campbell Discount Co Ltd v. Bridge* ([1961] 2 All E.R. 97). The total hire-purchase price of a motor-car was £482 10s. The hirer gave the owner another car in part exchange (in respect of which he was allowed £95) and paid £10 in cash. He agreed to pay off the balance of £377 10s by thirty-six monthly instalments of £10 9s 2d, with a final payment of £1. The agreement provided that the hirer might terminate the hiring, and that if he did, he should deliver up the car to the owner, pay all arrears of hire rent due and unpaid, and, 'by way of agreed compensation for depreciation of the vehicle', pay such further sum as might be necessary to make the rentals paid and payable up to two-thirds of the hire-purchase price. After paying the first instalment of £10 9s 2d the hirer terminated the hiring and returned the car. The owner claimed £206 3s 4d under the agreement (that is, two-thirds of the total hire-purchase price, less the initial payment in cash and kind of £105, and less the one instalment of £10 9s 2d). The Court, applying *Associated Distributors Ltd v. Hall*, and distinguishing *Cooden Engineering Co Ltd v. Stanford*, held that the question whether the sum claimed was a penalty did not arise because it was claimed on the exercise of the hirer's option under the agreement and not in respect of any breach of the agreement. Small wonder, then, that some finance companies try to persuade a hirer who is in difficulties to determine the agreement himself!

Bridge's case is of particular interest because of the comments of two of the lords justices on the

present state of the law. Holroyd Pearce, L.J., said Parliament had,

'perhaps unfortunately, chosen not to put fetters on transactions of the size [over £300] of that in the present case',

and Harman, L.J., that

'it was unsatisfactory if the man who honestly admits to the finance company that he cannot go on may have to pay a penalty, but that if he waits for the finance company to exercise their rights and in the meantime breaks the contract, he may be able to escape paying it on the ground that [a] penalty for breach of contract is not enforceable in law. I have felt myself oppressed by that consideration'.

The case is in the House of Lords list for the present term, and no doubt the decision of the Lords will be followed with interest.

Defects in the Goods

What remedies are open to the hirer if the goods taken on hire-purchase prove to be defective? He cannot sue the dealer unless the latter is guilty of fraud (which is actionable apart from contract) or the Court can spell out a contract between him and the dealer. He may not be able to sue the owner because the hire-purchase agreement expressly excludes all conditions and warranties except, in the case of a transaction within the Hire-purchase Acts, those which are implied by statute and are not capable of being excluded. Fortunately, however, the Courts tend to construe such exclusion clauses jealously.

In *Karsales (Harrow) Ltd v. Wallis* ([1956] 2 All E.R. 866) an owner let on hire a second-hand car which was in good condition when the agreement was signed but which, on delivery, had undergone such damage that it was in a deplorable condition and incapable of self-propulsion. The Court of Appeal held that a clause excluding any conditions as to the car's fitness for any purpose could not oust the owner's fundamental obligation to deliver the car contracted for and not something different in kind.

In *Lowe v. Lombank Ltd* ([1960] 1 All E.R. 611) the hirer signed the hire-purchase agreement without reading it, but the dealer told her the car she was hiring was in perfect or almost perfect condition. The agreement contained a clause whereby she acknowledged that she had not made known to the owner expressly or by implication the particular purpose for which the car was required, and that the car was reasonably fit for the purpose for which it was in fact required; but this clause was never brought expressly to her

notice. She signed a delivery receipt acknowledging that the car was in good order and condition and to her satisfaction in every respect. The engine, steering and brakes were, in fact, all defective and the car was completely unroadworthy, but the defects were latent and would not have been apparent to a layman on inspection. She sued the owner for breach of the condition of fitness implied by the Hire-purchase Acts and recovered damages of £160. The Court of Appeal held that notwithstanding the exclusion clauses in the contract, the hirer did by implication make known to the owner that she required the car as a means of transport, and that (*inter alia*) the representation in the delivery receipt did not clearly extend to latent defects.

A more recent case is *Yeoman Credit Ltd v. Apps* ([1961] 2 All E.R. 281) where the hire-purchase price of a second-hand car exceeded £300. The agreement provided that

'No warranty whatsoever is given by the owner as to the age, state or quality of the goods or as to fitness for any purpose and any implied warranties and conditions are also expressly excluded.'

The car, when delivered, had such an accumulation of latent defects as to be neither safe nor roadworthy, and could not be repaired for less than about £100. The hirer made some complaint to the owner about the condition of the car, but he kept it for a time and paid three instalments, hoping that the dealer would meet half the cost of repairs. Thereafter, he rejected the car. The owner claimed for arrears of instalments and damages, and the hirer counterclaimed for £170 as money paid by him to the owner for a consideration which had wholly failed. The Court of Appeal held that the owner was not entitled to rely on the exclusion clause because there was 'such a congeries of defects' in the car 'as destroyed the workable character of the machine' and constituted a breach of a fundamental condition of the agreement to provide a car which was roadworthy. The hirer was awarded £100 damages, but had to pay a further instalment of £14 19s for the use of the car before he rejected it.

A case where the hirer succeeded against the dealer is *Andrews v. Hopkinson* ([1956] 3 All E.R. 422). The dealer had a second-hand motor-car for sale and he said to a prospective customer: 'It's a good little bus; I would stake my life on it; you will have no trouble with it.' The customer took the car on hire-purchase, but a week later he was seriously injured in an accident owing to the car's steering mechanism being defective. He

brought an action against the dealer for breach of warranty. The Court found that a warranty had been given and broken, and it awarded damages against the dealer.

In *Campbell Discount Ltd v. Gall* ([1961] 2 All E.R. 104) the defect was not in the goods but in the agreement. The defendant agreed to take a car on hire-purchase for £265 and signed an agreement in which the price and instalments were left blank. The dealer either falsely or mistakenly inserted a price of £325 together with higher instalment payments than those agreed upon. The hirer refused to pay the instalments. The owners took possession of the car and claimed four monthly instalments. The hirer counter-claimed for the return of his deposit of £65. The Court of Appeal found that there was never any agreement between the parties as both were contemplating different sets of figures. Consequently, the owners could not succeed in their claim for payment of the instalments and the hirer could not recover his deposit from the owners, *although he might well have been able to sue the dealer for money had and received*.

Suggestions for Reform

With outstanding hire-purchase debt now in the region of £1,000 million, and about one-half of this sum accounted for by motor vehicles alone, it seems wholly unrealistic that not a single hire-purchase transaction in respect of a new four-wheeled motor-car can be covered by the Hire-purchase Acts, 1938 and 1954; and further, that the great majority of transactions in respect of used quality cars must also be deprived of the protection of the Acts.

There are three possibilities open: (i) to remove the price limits altogether so that the Acts apply to all hire-purchase transactions; (ii) to raise the existing limit of £300 (except for livestock) to £750 or more; and (iii) to have two codes, one regulating broadly all hire-purchase transactions, and the other regulating in detail the relationship between the parties where the transaction falls within a fairly low price range, on the ground that where the sum involved is not small the hirer is better able to look after himself, and where that is so, there is less justification for interference. This last system is the one adopted by many of the American States.

Should the finance charge be expressed as an equivalent rate of interest as well as in pounds, shillings and pence, to enable the prospective hirer the better to compare the charges of different companies? Charges vary considerably, both as

between companies and for different classes of goods. On bicycles it may be as high as 54 per cent and on furniture as low as 9 per cent. On radio and electrical goods it may range between 9 per cent and 31.5 per cent. The expression of the finance charge as a rate of interest might entail some misunderstanding, if only for the reason that the charge includes other items besides interest, and it would clearly serve no purpose in the absence of a single formula for computing the true rate. However, such difficulties would not be beyond the Parliamentary draftsmen, and some indication of the effective interest rate might assist dealers (who are usually linked to a particular finance house), no less than prospective hirers, in being selective.

Section 2 (2) (d) of the Act of 1938 allows the owner seven days in which to furnish the hirer with a copy of the agreement. It is suggested that the hirer should be entitled to receive a copy of the hire-purchase proposal or agreement, as the case may be, as soon as the document is signed by him. This would help to eliminate arguments which sometimes develop as to whether figures were inserted or altered before or after the hirer signed the agreement.

If the hirer completes his payments before they are due, he should be legally entitled to a proportionate reduction in the finance charge instead of being dependent on the goodwill of the owners. In this matter the Australian Uniform Bill and several North American Acts are in advance of the English Acts.

In *Campbell Discount Ltd v. Bridge* (which is to come before the House of Lords) Harman, L.J., pointed to the unfavourable position of the hirer who voluntarily determines his agreement as compared with that of a defaulting hirer; while personal representatives of a deceased hirer who maintained his payments may also be in a worse position than a hirer who defaults (see observations of Somervell, L.J., in *Cooden Engineering Co Ltd v. Stanford*, ante).

Waragowski's case shows that the owners can (in some circumstances) recover the total hire-purchase price, less the value of the goods whereas, as has been seen, if the sum claimed together with the value of the goods exceeds the total hire-purchase price, it has been held to be a penalty. Subject to what the Lords decide in *Bridge's* case, it would certainly appear that the law relating to minimum payments is at present either unjust or uncertain. If the Hire-purchase Acts were extended to cover higher priced goods, much of the present difficulty would be auto-

matically resolved; since the Act of 1938 already imposes fetters on minimum payments. Failing this course, it would seem that some other protection may be necessary in cases outside the Acts.

Where the transaction is outside the Acts, defects in second-hand goods which do not constitute a breach of a fundamental condition of the agreement (so that the hirer is not afforded a remedy against the owner) present something of a problem. It would seem unfair to make owners, who have never even seen the goods, responsible

for such defects, either by banning exclusion clauses or by making the dealer their agent. Dealers frequently give warranties in respect of second-hand goods, and it is at least arguable that any changes in the law, under this head, should be at their expense, e.g. by giving the owner a statutory right of action against them.

These few suggestions are in no way comprehensive, but they indicate some of the more obvious directions in which a reform of the law is called for.

THE ACCOUNTING WORLD

Netherlands Accountants' Year-day

Organic Changes in International Monetary Relations

INTERNATIONAL monetary relations and automatic data processing were the subjects discussed at the forty-fourth Accountants' Day Conference of the Netherlands Institute of Accountants held on September 30th in Scheveningen.

The President of the Netherlands Institute, Mr H. C. Treffers, was in the chair at the conference sessions in the Kurhaus Hotel. In addition to some five or six hundred members of the Netherlands Institute, there were present accountants from Austria, Belgium, Canada, Denmark, Finland, France, Germany, Great Britain, Ireland, Luxembourg, Norway and the U.S.A. The English Institute was represented by the President, Mr Paul F. Granger, F.C.A., with Mr Alan S. MacIver, C.B.E., M.C., B.A., Secretary; the Scottish Institute by Mr James C. Stewart, C.A., President, with Mr E. H. V. McDougall, Secretary; the Irish Institute by Mr A. E. Dawson, F.C.A., President, with Mr W. Stuart Orr, B.A., LL.B., A.C.A., Secretary; the Association of Certified and Corporate Accountants by Mr G. L. Barker, F.A.C.C.A., President, with Mr F. Osbourn, M.B.E., B.A., LL.B., Secretary; the American Institute of Certified Public Accountants by Mr Henry J. Sebastian, C.P.A. (Immediate Past-President); and the Canadian Institute of Chartered Accountants by Mr E. J. Vrabel, C.A. Mr Douglas A. Clarke, LL.B., F.C.A., Mr S. John Pears, F.C.A., Mr Alexander McKellar, C.A., and Sir Thomas Robson, M.B.E., M.A., F.C.A., attended as guests of the Netherlands Institute.

Also present were representatives of the Dutch Government, provincial and other authorities, the universities, the military forces and the professional and business life of Holland, including the Minister of Finance, Mr Zijlstra, members of the Social and Economic Council, members of the Supreme Court, Mr Korthals Altes and Mr Tegenbroek, and members of the Council of State, Mr Reinalda and Mr Helders.

Accountancy in the European Economic Community

In his opening address, the President, Mr H. C. Treffers, said that the development of automation in the accounting field will have an effect on the whole organizational structure of a company's undertaking. For a long time, he said, accountants had been convinced that accountancy methods had left the sphere of keeping records and there was a close connection and even inherent interrelation with the entire internal organization of the undertaking. As Professor Van der Schroeff said at the Accountants' Day in October 1951: 'The accountant will have to become familiar with the idea that the administrative machine under his care can only truly become a tool of management if the administration has not only been adapted to the existing organization, but if it has fully been set up as an integral part of the organization.' This development, he said, had led to changes in the programme of studies in the education of accountants so as to bring out the close relationship between accountancy and the science of internal organization as part of the economy of the business.

Within the Institute, Mr Treffers continued, ample consideration is given to internal organization: and the advisory committee on organizational questions, by means of study meetings and conferences, offers members of the Institute an opportunity for discussion and for gaining a deeper insight.

As auditor, he said that the professional accountant is in an extremely favourable position to act as a co-ordinator (and often also as a catalyst) of other internal and of other external experts. The organization of an undertaking affects the way in which the audit can and must be carried out by the accountant. It may be expected that the development of automatic data processing will have a great influence on the way in which the accountant will be able to perform his audit. This development, he declared, will be of such

great importance that it had already induced the Council of the Netherlands Institute to take up research. A committee had been formed to study the effect that automatic data processing has on the audit. The Council, he said, is fortunate that it may rely for this study on the co-operation of the 'Foundation study centre for automatic data processing' of which the Institute is one of the founders.

Registration of Accountants

Mr Treffers went on to say that the final report of the Parliamentary Committee on the Registered Accountants Bill was published in July of this year. The Institute, he said, had expressed its agreement with this Bill, because it was based on the following principles:

- (1) it provides a guarantee for the required level of expert knowledge of the accountants, who issue their certificates under the qualification indicated in the Act;
- (2) good professional rules and a professional disciplinary jurisdiction should be a further guarantee for the proper pursuit of the profession.

Upholding these principles, he stated, did not primarily mean a protection of the interests of accountants; on the contrary, it was a necessary condition which must be met if a statutory regulation of the accountants' profession was to fulfill its general social purpose.

From the social point of view it would not be justifiable, Mr Treffers continued, for persons to be subject to professional rules and to a disciplinary jurisdiction if their level of expert knowledge were inadequate. The Netherlands Institute of Accountants had confidence that further parliamentary consideration based on the social importance of a proper regulation of accountancy would lead to a recognition of the correctness of the principles laid down in the Bill.

Evolution of International Monetary Arrangements

Professor Dr G. M. Verrijn Stuart, of Amsterdam University, and chairman of the Central Planning Bureau of the Netherlands, then addressed the conference on the growth of international monetary arrangements.

The post-war period, he said, began with a shortage of dollars in Western Europe, and although this was a sickness curable by the action of the European countries, it was greatly helped by an injection of dollars from America; lately America seemed to have caught something of the same sickness in its own financial position. The post-war period had also been notable for the frequency and obstinacy of balance of payments difficulties for England, which he considered was mainly due to faults in the post-war monetary system.

In the construction of an international monetary system, said Professor Stuart, one should have internal and external stability in the value of the

monetary units, but money should also support an optimum development of the welfare of the people based on productive capacity and the greatest possible exchange of goods and services.

Down to the First World War, the classic gold standard fulfilled only part of these great aims. Fluctuations in gold production, he said, led to prolonged cyclical changes in the price level. The creation of fiduciary money by the banks had the advantage of producing elasticity, but also the disadvantage of intensifying the trade cycle. External stability with fixed exchange rates was secured at the cost of internal economic development, which was disturbed by the international cyclical changes.

After the First World War, a considerable extension of the gold exchange system effected necessary economies in the use of gold. Notwithstanding this, deflation set in. By 1925 there was a general restoration of the metallic basis of the monetary system, but with an emphasis on foreign exchange as cover for the bank-notes and also as an international liquidity under the resolution of 1922 in Genoa. Whilst prominent economists supported proposals for a managed gold standard under which the creation of money would be elastic and price levels stable, the quiet development of these ideas was, however, disturbed by the collapse of the gold standard in 1929.

Collapse of 1929

At first, said Professor Stuart, it was thought that the collapse of 1929 was the unavoidable result of the production of gold being inadequate in relation to the growing tempo of the world trade and that this must unavoidably lead to the limitation of bank credit and to a general deflationary process. It was undoubtedly true, he said, that in an expanding world economy, world liquidity must grow with it: 'Otherwise one is landed with long periods of downward price movements as in 1818 to 1849 and 1873 to 1896.'

A second explanation of the collapse of 1929 advanced by Professor Stuart, lay in the monetary system. It had been a mistake, he said, to return to the gold basis of exchange in 1925 and to rely so greatly on foreign exchange assets in the place of gold. The price level of 1925 was 40 per cent to 50 per cent higher than in 1914 and there was insufficient gold to provide cover, but there was danger in the wide use of foreign currency.

The possession of foreign currency by central banks, he said, was not widespread, but was concentrated in one or two countries with key currencies who acted as bankers for the other countries. As this policy increased, the burden of debt of the banker countries became heavier and the balances and claims of the other countries became insupportable. At the very first depression the banker countries became the victims and had to devalue their currencies or establish exchange control.

It is undeniable, he went on, that a banker-country has special problems. When other countries wish to exchange their balances into gold or other currencies,

the banker-countries must have sufficient external liquidity at their disposal. This can often be achieved by increasing the rate of interest. So that there may be no lack of trust, the banker-country must pursue a steady policy, building up confidence, with sufficient play in its balance of payments.

During the 1920s the balance of payments of England was weakened by the decline in exports of coal and textiles as well as by monetary factors.

He declared that it was a mistake in 1925 to stabilize the pound sterling at its pre-war level and not 10 per cent lower: fixing the British price level too high undermined the country's international position. America, with less experience, made great mistakes in providing credits for Central Europe.

A New Monetary System

The 1930s brought measureless deflation, the collapse of the gold standard, and inability to co-operate sufficiently in international monetary policy: but nevertheless reflation was successfully attempted in a number of countries. The great and lasting gain from this period, he declared, was the development of reflation as a counterweight to catastrophic deflation — by financing of additional public works, by deficit spending and by providing built-in stabilizers to counteract massive reduction in the buying-power of consumers during a depression.

Professor Stuart said that it was in this period that economists and bankers, despite a bewildering variety of opinions, laid the foundations for a new, balanced and practical monetary system. 'Out of the clash of opinions then, something like a common opinion has formed as to the basic principles for the management of money: but there are a number of unsolved problems and unanswered questions.'

Accepting the fact that after the Second World War various countries, including the sterling area, achieved a moderate success in stabilizing the price level while stepping up the volume of employment, Professor Stuart asked: 'With full employment how can one avoid inflation resulting from pressure on the labour market, increases in wages and consequent upwards pressure on the prices of goods? How can this co-exist with an international order of fixed exchange rates?'

Bretton Woods

To the internal requirements of a stable price level and full employment, said Professor Stuart, the Bretton Woods Conference of 1944 added the external requirements of maintaining the equilibrium of the balance of payments with free multilateral settlements at fixed exchange rates. For temporary disequilibrium in the balance of payments the International Monetary Fund exists and, with its support, it was possible to combine internal balance of price level and full employment with the external monetary balance.

So long as central bankers continue to buy and sell

gold at fixed prices, he said, there remained a relationship between gold and money: but, as a standard or measure, gold had been abandoned. The real monetary standard, he said was now based on:

$$PL + BP + FE$$

(Price level, Balance of payments and Full employment) in a society with free multilateral trade and fixed exchange rates.

Under the Bretton Woods Treaty, the purposes of the International Monetary Fund include the promotion of exchange stability, the establishment of a multilateral system of payments and also the maintenance of high levels of internal employment, but, he added, internal price stabilization is not specified as one of the purposes.

Treaty of Rome

For the European Economic Community, Article 104 of the Treaty of Rome enjoins each member State to ensure equilibrium in the balance of payments and to maintain confidence in its currency, and also to concern itself with a high level of employment and stability of prices. However, it is not clear, he said, whether the prices to be stabilized are wholesale or retail or whether some more general index is intended. There was similar uncertainty as to whether the balance of payments includes capital account as well as income account. A 'high level' of employment, he declared, was so imprecise as to permit a varying subjective standard in each country.

The compatibility of the three factors was then analysed by Professor Stuart. Although full employment is often attainable at the cost of a gradual rise in the price level or creeping inflation, the upward pressure on prices could be avoided if a margin of unemployment hangs over the market while a slightly deflationary financial policy is pursued by the Government. The speaker considered that with full employment the stability of the price level could be lasting only in the framework of a controlled wages structure. Control of wages in some countries was secured indirectly by Bank rate changes, by liquidity percentages or by the rationing of credit.

Money in Flight

With the new monetary standard, Professor Stuart said that greater co-operation was needed between countries than in the days of the classical gold standard. Anxiety and distrust, he said, might cause a flight from a weak currency to a country of refuge and even, in special circumstances, from United States dollars. One may say, he continued, that since the 1920s Great Britain has not been free from monetary care. The mischief of 'hot money' could be overcome simply by a credit from the country of refuge against a guarantee of exchange rates by the other country. Such a solution was suitable for short-term problems, but not where there was some fundamental disequilibrium. The escape clause of the International Monetary Fund, said the speaker, was used in the

wave of devaluations in 1949; the French devaluation of 1958 and the German and Dutch revaluation of 1961, which was due not to deflation in those countries but to over-spending in the deficit countries. One must wait to see, he said, whether the recent measures in the United States and in Britain (which did not include a most needed modernization of its wages structure) will be effective. It is to be deplored, he declared, that the two banker-countries have these balance of payment difficulties.

World Liquidity

Looking to the future, Professor Verrijn Stuart saw the risk of a world shortage in liquidity. A rise in the price of gold was neither rational nor fair to the countries without gold. The solution lay in forming the International Monetary Fund into an international central bank, preferably following the proposals of Professor Robert Triffin, of Yale. Each country would contribute a percentage of its international liquidities. The International Monetary Fund could then lend and create a limited amount of additional money.

Professor S. Posthuma, director of the Netherlands Bank, made a plea for freedom and growth. He doubted whether the world was wanting an international banker with full powers over international money: there was a limit to economic co-operation without giving up national sovereignty. He found it dangerous in the present situation of tensions in the settlement of world payments to give shape to a plan for increasing international liquidity. It was possible that with the present tendency towards co-ordination there might presently be a need for a reduction in liquidity.

Economic Growth

Professor de Roos disagreed with a relative order which placed the balance of payments with fixed exchange rates as the more important and sacrificed the purposes of a stable price level and full employment. To these two purposes, he added a third – steady economic growth. He considered that the maintenance of fixed rates of exchange should in practice give way to necessary economic growth.

In reply, Professor Verrijn Stuart claimed that industry could be relied on to produce sufficient economic growth. It would not be a bad thing to have less than the maximum rate of growth if one could secure (at the same time and without preferring one over the others) a stable price level, a balance of payments and a high rate of employment. With a good wages structure, growth would follow in its own time.

In thanking the speakers, Mr Treffers recalled that Professor Verrijn Stuart had first addressed them on economic matters in the autumn of 1930.

Automation as a Development in Accounting

For the afternoon session of the Conference, Mr A. B. Frieling, Professor at Amsterdam University, and a practising accountant, gave an address on

'Automation as a phase in the development of accounting organization'. His paper was then debated by four members of the Netherlands Institute representing practice and industry.

Conference Dinner

At the conference dinner, the President, Mr H. C. Treffers, welcomed the visitors from abroad, members of the Netherlands Institute and their ladies, and all those, including the Ladies Committee under Mevrouw van den Bosch, who had worked together to make the day so successful. After Mr Paul F. Granger, President of the English Institute, had proposed in Dutch the health of Queen Juliana, Professor Goudekot thanked the speakers at the Conference. Professor Groeneveld addressed the representatives of the other countries, speaking in English, French and German, on the share of accountants in the harmonious development of the economic world.

Returning thanks for all the foreign guests, Mr K. G. Jansen, President of the Danish Institute, said: 'It has been for many years the custom of the Scandinavian and Northern bodies of accountants to confer together and to have a continuous connection: with *rapprochement* in Western Europe, could not this be extended to include accountants in all parts of a united Western Europe? Even if all accountants were not working at the same level, the differences in method were not great and benefit would result from the discussions. 'Each thinks his own country to be in the uppermost rank of accountants but all could profit from an exchange of ideas. We need to speak to each other for unless we are contradicted we may regard our own words as the word of God.' Mr Jansen promised the support of Scandinavian accountants for a conference between the accountants in Western Europe.

Mr J. Kraayenhof, a former President of the Netherlands Institute, thanked Mr H. C. Treffers for presiding so successfully over the whole day, and for devoting all his thoughts to the profession inside and outside Holland. In his reply, the President acknowledged the devoted co-operation of members in the work of their beloved Netherlands Institute, and thanked Mr A. L. de Bruyne, its director, who, after twenty-five years with the Institute, had recently been made a Knight of the Order of the House of Orange.

On the following day, the overseas guests were invited to accompany Meester A. Th. E. Kastein and other members of the Netherlands Institute to see the construction of the new sluices in the Haringvliet tideway near Hellevoetsluis. The journey was made by steamer from Rotterdam, luncheon and dinner being served on board. By disembarking on the artificial island in which the sluices were being constructed, it was possible to appreciate the vast scale of the engineering work which forms part of the new delta defences against the sea.

Weekly Notes

Stamping Compulsory Transfers

THE Court of Appeal has decided that compulsory transfers of shares, executed pursuant to the provisions of Section 209 of the Companies Act, 1948, are transfers 'on sale' within the meaning of Section 54 of the Stamp Act, 1891, and accordingly require to be stamped *ad valorem* at 2 per cent of the purchase consideration. They reversed the decision of Mr Justice Buckley on this point (*Ridge Nominees Ltd v. C.I.R.* (40 A.T.C. 72)). This decision in the lower Court was the subject of a leading article in our issue of April 1st, when we assumed that Mr Justice Buckley had distinguished the case before him from such cases as *Great Western Railway Co v. C.I.R.*¹, *Attorney-General v. Felixstowe Gaslight Co*², and *C.I.R. v. Irvine and District Water Board*³. In the judgment as subsequently reported, his lordship did indeed distinguish two of the cases mentioned above. However, it seems, according to *The Times* of November 10th, that the Court of Appeal are none the less satisfied that the transfers were 'on sale', despite the absence of the consensus which is said to be essential to a sale.

The amount of stamp duty involved was £17 10s.

The company did not appeal against the other part of Mr Justice Buckley's decision, namely, that transfers executed while the purchasers' offer was still conditional were nevertheless transfers 'on sale'.

'Book-keeping Fantasy'

LAST May, Mr Justice Buckley dismissed the appeal of Mr Ronald Langford Johnson, solicitor, against the refusal of the General Commissioners to grant him loss relief under Section 341 of the Income Tax Act, 1952 (*Johnson v. Jewitt* (40 A.T.C. 109)). His appeal from that decision to the Court of Appeal has now also been dismissed, and his application for leave to appeal to the House of Lords has been rejected (*The Times*, November 11th).

Mr Johnson formed a partnership in 1954 with two associates. A simplified statement of its activities is as follows. It caused a £100 company to be formed, the shares being owned by Business Economy Ltd. The partnership lent £50,000 to Business Economy Ltd, who gave it to the £100 company, which credited the £50,000 to 'reserve'. The partnership borrowed the £50,000 from the £100 company and carried out a similar operation. This was repeated fifty-nine times,

so that there were fifty-nine companies with a combined reserve of some £3 million. The partnership purchased their capital for £50,000 each. They then declared dividends out of these reserves, which were set off against the debts owing by the partnership. Thereafter the partnership sold the shares in the fifty-nine companies for £10,000, thus showing a huge paper loss against the huge paper dividends. Mr Johnson claimed repayment of the tax alleged to be deducted from the dividends, on the ground that he had borne a share of the paper loss, and that this was a loss 'in trade'.

Lord Justice Donovan said that the Court had been asked 'What was there if it was not a trade'? His lordship would reply that it was a cheap excursion in book-keeping fantasy involving a gross abuse of the Companies Act and having as its unworthy object the extraction from the Exchequer of an enormous sum which the appellant never paid in tax and to which he had no shadow of a right whatsoever.

Wool Textiles in the Common Market

CONFIDENCE about the prospects for wool textiles in the European Common Market was expressed this week by representatives of the Wool Textile Delegation. The entry of the United Kingdom into the Common Market might make the area virtually a home market. The policy of the clothing industry so far as purchases were concerned would vitally affect the prospects of wool, but clearly the wool textile industry is confident about its ability to compete in any market in Western Europe where there is neither tariff nor quota discrimination.

Wool has never been a poor man's textile. While this has given it bleak enough times during world depressions (the West Riding had its grim years in the twenties and thirties), its price and quality have spared it the agonies of massive competition from local looms which have afflicted the cotton industry in backward areas. To a limited extent, the same has been true in Western Europe. The market is limited compared with cotton textiles and there has been little temptation in some countries to establish a major wool textile industry. Consequently, at a time when the standard of living is rising still higher in Western Europe, the United Kingdom wool industry is in a good position to raise its sales. The European Common Market is now the largest market (bigger than North America) for wool textiles and Yorkshire is clearly determined that it shall grow larger still.

Cold Winds in Lancashire

THE cotton reorganization scheme has all along had its critics. There have not been lacking those who said that the severe cuts in spinning and weaving capacity were not Draconian enough, although most of these remarks were made in private rather than in public.

The recent annual Cotton Board conference was marked by a straightforward statement by Mr

¹ [1894] 1 Q.B. 507.

² [1907] 2 K.B. 984.

³ (1905) 43 Sc. L.R. 649.

W. Winterbottom, chairman of Fine Spinners and Doublers Ltd, that the reorganization scheme had not come off. He added that in some ways it had been a waste of the £33 million of new equipment which had been ordered, £13 million of it having come out of the taxpayer's pocket. Mr Winterbottom's remarks are all the more cogent because it was at the 1958 conference of the Cotton Board that he put forward the idea of a programme of scrap-and-build for the industry.

Other speakers supported his contention that the scheme had misfired and the cause of most of the trouble is seen, as it has been seen from the inception of the scheme, as the quota level of imported cottons from the Far East.

The fact is that the Government is not disposed to sacrifice the export markets of under-developed countries within the Commonwealth to save the Lancashire cotton industry. The principle that under-developed countries must be allowed to trade as well as accept the charity of aid is a vital one. It is, nevertheless, hard for the Lancashire cotton industry to suffer the bleak winds which arise from the Government's economic righteousness.

Views on Land Use

NO discussion of town planning can avoid consideration of the 'green belt', a conception which the new President of the Royal Institute of Chartered Surveyors, Mr E. C. Strathon, F.R.I.C.S., believes 'cannot be faulted'. Unfortunately, the more firmly the authorities affirm their belief in this policy the more likely they are to encounter the criticism that it has forced up land values, although Mr Strathon is not convinced that this criticism is fully justified. Many citizens will agree, however, with his observation that the tendency of planning authorities to say only 'No' as the first reaction to development proposals dies hard. The very considerable powers currently vested in these authorities, and not least their decisions, would be more widely accepted as just and fair by the public if the latter were to be kept informed as to the considerations that have influenced the authorities in formulating their policies. Nor has the public image of local authorities as planning bodies been enhanced by their use of compulsory purchase orders. The many problems arising from this practice have hardly been satisfactorily solved by the Land Compensation Act, 1961.

A Dismal Tale

BETWEEN 1950 and 1960, Britain's share of the aggregate export trade of the thirteen major industrial nations of the world fell from 21 to 14 per cent. In the same period her share of the imports into the overseas sterling area countries dropped from 62 to 40 per cent. Whereas the total exports of these thirteen major exporters increased by 140 per cent between 1948-60, the United Kingdom raised its exports by only 54 per cent. Admittedly the compar-

able figure for the United States was only 50 per cent, but that for the nine major European producers was 190 per cent. Such are the main findings of a report, prepared by the secretariat of the General Agreement on Tariffs and trade (G.A.T.T.),¹ which concludes that in the post-war period the United Kingdom has lost ground to its competitors in all the major markets of the world.

The report notes that the intensity of price competition is not likely to weaken in the next few years and confirms that domestic production costs will, more than any other factor, determine the relative share of each exporter in the major markets. While British prices have been held at a fairly constant level during the past few years and American prices have increased, European prices, in contrast, have declined steadily. This trend of production costs can hardly be dissociated from the disappointing pace of British industrial expansion in recent times.

Reviewing the longer post-war period, the report estimates that British industrial output rose by only 60 per cent between 1948-60, as compared with the doubling, i.e., 100 per cent increase, for the nine major continental European nations. Although the comparison is not valid since German production in 1948 was still affected by the aftermath of the war, for what it is worth the report notes that in the same period German output rose almost five times.

The prospect that British industry will soon achieve the 10 per cent increase in exports, which the Treasury deems necessary for the future stability of sterling and the economy, seems even more remote in the light of the warning in this report that the slackening of world trade in manufactures evident early in 1961 will become more pronounced.

Trade with Japan

THE question of the liberalization of trade with Japan is dealt with in a booklet issued by the Federation of British Industries (price 10s). It has been prepared by Sir Norman Kipping, Director-General of the Federation of British Industries, and by Mr J. R. M. Whitehorn, a Deputy Overseas Director, following a visit to that country.

Guarded optimism is expressed about Japan's good intentions to proceed with trade liberalization. In consequence, the report favours a gradual liberalization on the part of the United Kingdom - with adequate safeguards. The present basis of British discrimination against Japan is contained in Article 35 of GATT. A further development of trade between the two countries depends on the prospect of a commercial treaty between them in the course of which this country would cease to invoke Article 35.

The report makes it clear that the authors discovered cases where there was supposed to be trade liberalization already on the Japanese side and where on examination no such liberalization existed. This apart, the report says that the chief obstacle remaining

¹ *International Trade 1960.*

to trade disarmament on the United Kingdom side is Japanese subsidization of exports, which British industry would find quite unacceptable. The report is also concerned with the merits of technical agreements between the two countries.

Common Market Survey

DURING the summer, *The Times* published a series of ten informative articles, each examining the consequences of membership of the Common Market for different sectors of the British economy. Among the topics discussed were agriculture, wages,

fuel and industry, as well as Britain's obligations to the Commonwealth and her E.F.T.A. partners. These articles have now been reproduced in a booklet¹, together with a selection of reports from that newspaper's correspondents in different parts of the world discussing the various overseas viewpoints on the Common Market and its implications for the outside world. The collection of articles is prefaced by a summary of the majority of the 240 sections of the Treaty of Rome, which give some indication of the approach of the 'Six' to European unity.

¹ *The Common Market. A Survey by The Times.* 2s 6d net.

This is My Life . . .

by An Industrious Accountant

CHAPTER 98

IF I can't have my time over again, at least I can profit by my early errors; after all, accountants should hang together, in the time-worn witticism, lest they hang singly.

As secretary once to a new textile factory, while still a member of a professional firm, I made up the accounts at the end of the first financial year and submitted them to be audited by an old friend, an office colleague appointed by our mutual principal. It was a happy arrangement. The construction programme was well under way so there was no operational profit and loss account; there were only building and plant costs, plus sundry pre-trading expenses. I had detailed analyses prepared for all the headings; our co-operation was complete. We drafted his audit programme jointly and argued over the extent to which he should accept as evidence of plant purchases, an enormous stack of iron-shod packing cases, still unopened, in one of the factory bays. At his request I supplied typed copies, for his audit notebook, of all relevant minutes, agreements, etc. We talked learnedly of future markets, amortization of the assets, and unit costs varying with the production. We thought, I recall regretfully, that we were pretty good representatives of the profession.

Somehow, things changed the following year. The new auditor was a new-comer to our firm; a thin, tight-lipped chap with a suspicious eye, who clearly regarded our secretarial section as aliens set far apart. Comradeship seemed lacking. He came to our preliminary interview with his predecessor's audit note-book open before him; he had amended it substantially in tiny, precise green writing of unrevealed significance; he quizzed me with deliberation on each item, without telling me his own views.

I was probably to blame. Our steadily rising output had reduced the overheads per unit of production

in accordance with a readily predictable graph; bubbling over with enthusiasm about the accuracy of our profit forecast, I didn't observe that he couldn't care less. He scanned my trial balance critically; his head jerked up sharply: 'A ten-pound discrepancy. When do you expect to furnish a reconciled statement?' He seemed staggered when I explained that his audit would doubtless locate the error; if not, we'd search for it again as soon as possible. He tapped meditatively with his pencil; after a pause, he asked coldly if the creditors' control account was out very much?

Of course, he spotted mistakes. We had bought large supplies of bobbins, spools, cones, belting, etc.; after taking stock carefully we wrote off the shortage to operating expenses; we reconciled it roughly with our usage records. He claimed that a calculable amount, sufficient to clothe all our looms, was original capital eligible for wear and tear allowances as a part of our plant; the remainder represented spares to be written off to replacements as used. The adjustment meant changes in our depreciation, in our fixed assets, in our taxation computation . . . he altered the accounts in the private ledger in his meticulous script. The pages looked like a contour road map when he had finished. . . . I had been youthfully proud of my expensive new ledger with its gold lettering and its brass lock. I was mortified, though I knew he was right.

As he pocketed his pen, I extracted a pair of scissors from my desk and cut out the maltreated pages before his outraged stare. 'You're not entitled to do that,' he protested. 'I'll have to report that there are numbered pages missing from the private ledger, unless you promise to replace them before my next visit.' My over-strained courtesy failed. I said icily: 'You really expect to be back?'

Ah well, I've repented my rudeness long since. Today, we gave our auditor our draft trial balance and accounts on foolscap, and asked courteously if he would like to suggest any amendments before we finalized them. He responded urbanely that it was highly unlikely, judging from his past experience with us; perhaps, however, we could discuss future financial policy later. Maybe we've matured a little at last.

Reviews

Tax Saving for the Business Man

by H. Toch, B.COM. (Museum Press Ltd, London. 18s net.)

Despite the growth of 'do it yourself' over a wide range of activities, most people are quite prepared to leave their income tax to their professional advisers, asking merely to be told the liability, and sometimes not even that. This situation has its disadvantages, as a speaker at a recent Institute course pointed out, in so far as it increases the difficulties of the accountant in explaining to his client what he must do for himself in determining his liability, not least in the matter of expenses.

This book by Mr Toch, an ex-Inspector of Taxes, could well be given by hard-pressed accountants to their more intelligent clients, as well as their new articulated clerks, to give the latter some idea about the main features of our tax laws. The explanatory text which deals with the basis periods of assessments, tax computations, capital allowances and losses, is very clear, and the examples are neither too difficult nor so simple as to be unrealistic. An intelligent selection of quotations from the Judiciary and the Income Tax Acts helps make the points as intelligible as the conscientious lay reader could wish.

Bid for Power

Third edition by George Bull and Anthony Vice. (Elek Books Ltd, London. 35s net.)

This is the third edition of a book which first appeared in 1958 and in view of the events and developments in the matter of company take-overs since then, the authors have had ample material upon which to draw in enlarging this work with five new chapters and substantially recasting other parts. The new chapters discuss in entertaining and lively journalism the story of British Aluminium and the Americans, the Clore bid for Watney Mann, Mr Fraser's acquisition of Harrods and finally the *cause célèbre* of our financial times, *l'affaire* Jasper.

The individual essays, while self-contained, are well linked together by the willingness of the authors to comment on events and to draw conclusions as to the trends emerging in the present-day capitalist society. They are in favour of take-overs, subject to the rules being kept and shareholders' rights being observed. This book would make an acceptable present for the accountant who already has everything one can think of for Christmas.

An Outline of the Law of Contract and Tort

Second edition, by G. G. G. ROBB, M.A.(CANTAB.), and JOHN P. BROOKES, LL.M. (The Estates Gazette Ltd, 28 Denmark Street, London WC2. 36s 6d, postage 1s 6d extra.)

This book covers wide fields of law. That it fulfils the purpose of helping students who are preparing for professional examinations is indicated by the fact that a second edition has been called for within four years. Nevertheless, students must find such a concise account of such a mass of law hard going, unless they are habituated to this kind of law book, which makes few concessions to the beginner. They would be better served by a more explanatory approach, nor need conciseness of statement mean inaccuracy. For example, in the chapter on 'Master and Servant', the third case cited on page 115 does not support what it is said to support; the statement of the effect of the National Insurance (Industrial Injuries) Act, 1946 (page 124), is erroneous, and room should have been found for a reference to the National Insurance Act, 1946, which rests on the legal concept of 'contract of service'.

SHORTER NOTICES

THE PRACTICE OF MANAGEMENT, by Peter F. Drucker (Mercury Books. Heinemann 10s 6d net). Mr Drucker's extensive writings on economic man have established him in the forefront of modern industrial philosophers and it is appropriate that this book, first published in 1955, should have been included in the first ten of the new paper-backed series produced by Heinemann. Accountants in industry, and others too, will find the author's comments on the inner workings of firms like Sears Roebuck, Ford and IBM as interesting as they are provocative.

RADICAL REACTION: ESSAYS ON COMPETITION AND AFFLUENCE. Introduced and edited by Ralph Harris. (Hutchinson for the Institute of Economic Affairs. 25s net). This volume comprises the first half-dozen Hobart House papers (all of which were reviewed in this journal), together with Mr Graham Hutton's introduction to the series. Mr Harris adds a brief introduction from the standpoint of the Institute.

DIE DIREKTEN STEUERN DER KAPITALGESELLSCHAFTEN UND DIE PROBLEME DER STEUERANPASSUNG IN DEN SECHS STAATEN DER EUROPÄISCHEN WIRTSCHAFTSGEMEINSCHAFT. (Direct taxation on companies and the problems of adapting the tax systems of the six States of the European Common Market), by Dr Albert J. Radler (International Bureau of Fiscal Documentation, Amsterdam. 30 florins; D.M. 35). The Common Market is very much in the news now and if the United Kingdom enters it the effects on Britain's tax structure may well be momentous. If the end object of the Common Market is to be achieved there must be a harmonization of the various national tax structures, great as the problem will be. Dr Radler's book will be remembered as the pioneer work on this knotty topic.

Finance and Commerce

Stock Policy

THE accounts of Capper Pass & Son Ltd, a very important name in the smelting and refining of non-ferrous metals, form the subject of this week's reprint. An item that will be noted is the market reserve of £408,000, the company's buffer against fluctuations in the market prices of the metals handled. The company is a smelter of tin ores, lead ores and metalliferous materials containing tin, lead, copper, antimony, bismuth and precious metals. It specializes in the treatment of low grade and complex ores and residues and has developed what are believed to be unique processes to extract and refine the metals in them. Its brands of high purity tin are of the highest quality.

Fluctuations in metal prices can, of course, be hedged on the London market but, Lord Fraser of Lonsdale, the chairman, points out, the company has for many years deliberately taken the other course of meeting these fluctuations itself. Over the years it has built up a 'very substantial' market reserve which is regarded by the board as more than adequate for its purpose.

'Looking back, it is clear', says Lord Fraser, 'that, if we had hedged the whole of our stock during, say, the past ten years, it would have cost us a very great

deal of money and would have distorted our figures and done the company no good.'

Market Reserve

The consolidated profit and loss account shows that this year the 'official profit upon which we pay tax' is down from £415,086 to £356,035, but this, says the chairman, is accounted for by the company's custom of bearing the ups and downs of world metal prices. Market reserve has, therefore, been drawn on to the extent of £12,000 (net after tax). In the previous year, £50,000 was put into market reserve. It is because of metal price fluctuations that 'a better profit in a particular year sometimes looks worse than the year before or vice versa'.

Lord Fraser noted that the price of tin approached £1,000 a ton in recent weeks and 'this has not been reflected in the year's accounts'. On March 31st, 1961, when the accounts were closed, the price of tin on the London Metal Exchange was well below £1,000 a ton and 'on the formula which we have agreed with the Inland Revenue for fixing our opening and closing prices, the year 1960-61 showed a stock loss'. On the other hand, he continued, there will be a stock profit to be taken to market reserve in the current year if the high price of tin continues.

CAPPER PASS & SON LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 1961

	£	£	1959/60 £	£
Balance at credit of Trading Account after meeting loss due to fall in metal prices (1959/60 including profit from rise in metal values)	..	420,533	516,833	
Investment Income				
Trade Investments	11,573		6,469	
Other Investments and Bank Deposit Interest	7,651	19,224	19,183	25,652
Exceptional Income				
Profit on sale of Land and Buildings at Felling	13,184			
Provision (for loss on Investments) no longer required	12,817	26,001		
		465,758		542,485
Deduct:				
Depreciation of Fixed Assets	108,538		126,183	
Auditors' fees and expenses	1,185	109,723	1,216	127,399
		356,035		415,086
Taxation on profits of the year:				
Income Tax	137,287		168,513	
Profits Tax	42,468	179,755	44,110	212,623
Net Profit for the year		176,280		202,463
Transfer from Market Reserve		12,000	(To Reserve)	50,000
Balance available (£174,661 is dealt with in the accounts of Capper Pass & Son Ltd) (£154,155 in accounts of Capper Pass & Son Ltd and loss of £1,692 in accounts of Subsidiaries)		188,280		152,463
Appropriations:				
Dividends, less Income Tax:				
On Preference Shares at 6%	18,927		18,927	
On Ordinary Shares at 10% (of which 7% has been paid)	74,763	93,690	74,763	93,690
Transfers to Reserves:				
Capper Pass & Son Ltd.	80,971		60,465	
Subsidiary Company	13,619	94,590	1,692 (Loss)	58,773
		188,280		152,463

Metal Loss Problem

Lord Fraser points out that an important element of cost arises from metal losses. Some metal must inevitably be lost in the process of smelting and refining. Some is washed away by rain, some is lost in gaseous form, and some is discarded in the waste slag because there is an irreducible minimum below which it is not not payable to extract it. This is a problem, he said, which all metal smelters face and it requires continual vigilance to keep metal losses as low as possible.

In the company's plants, elaborate collectors are used, some extremely expensive and the greatest possible technical efforts are concentrated on reducing losses at all stages. Notwithstanding all efforts, losses vary from year to year, but 'I am glad to report', says Lord Fraser, 'that after a period of annual losses which we regarded as disturbingly high, we have met with some success in reducing them in the year under review and hope this improvement will be maintained'. The answer to such losses is extensive modernization and streamlining of plant now in progress which, it is hoped, will lead to improvement in profits in a few years' time.

The item Trade Investments mainly represents aid to the Bolivian Mining Corporations through a loan to the Bolivian Government. It was originally £250,000, was £127,000 at the date of the accounts and has since been reduced to £23,000.

A large proportion of Bolivia's tin ore production is smelted in the company's works. Actually the business was started somewhere about the end of the eighteenth century in Birmingham for the recovery of silver and copper from Sheffield plate.

CAPPER PASS & SON LIMITED

NOTES ON THE ACCOUNTS

1. Outstanding contracts for capital expenditure, so far as not provided for in the Accounts, amount in the aggregate to approximately £53,000.

2. Directors' total emoluments for the year were as follows:-

	1960/61	1959/60
Fees	£ 1,500	£ 2,458
Other emoluments	21,077	18,275
Pensions	1,900	1,900
	<u>24,477</u>	<u>22,633</u>

3. Movements in Group Reserves:-

	Market Reserve	General Reserve
At 31st March, 1960:	£	£
Company	420,000	1,227,881
Subsidiaries	—	51,011
	<u>420,000</u>	<u>1,278,892</u>
In Company's Accounts:		
Transfer to Profit and Loss Account ..	- 12,000	
Transfer from Profit of the year after providing for Dividends		+ 80,971
In Subsidiaries' Accounts:		
Profit on sale of fixed assets of Company no longer trading		+ 13,184
Miscellaneous income		+ 434
At 31st March 1961:		
Company	408,000	1,308,852
Subsidiaries	—	64,629
	<u>408,000</u>	<u>1,373,481</u>

CITY NOTES

THERE is a marked change of mood in the stock-markets. A rise of more than twenty points in *The Financial Times* industrial share index from the October low point has shown once again that nothing attracts buyers so much as rising prices.

A particular factor in the rise, especially in the past two weeks, has been the technical position of the market in which London jobbers have been acutely short of stock. Another factor is that the average British investor is very rarely a seller on any scale.

During the fall in the equity market from the mid-May peak, the absence of support rather than any pressure to sell was the main influence. Having taken only limited amounts of stock while prices were on the way down, jobbers find themselves unable to supply even a limited scale of demand when the market mood changes for the better.

Their hope is that by marking up prices sharply they will bring supplies on to the market and this week there were signs, at times, that the move proved successful. That it was successful suggests, in turn, that institutional investors see little grounds for any major advance in equity levels in the short term.

RATES AND PRICES

Closing prices, Wednesday, November 15th, 1961

Tax Reserve Certificates: interest rate (12.8.61) 3½%

Bank Rate

Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6½%
Oct. 27, 1960	5½%	Nov. 2, 1961	6%

Treasury Bills

Sept. 8	£6 12s 10.81d%	Oct. 13	£6 0s 0.28d%
Sept. 15	£6 11s 10.99d%	Oct. 20	£5 18s 5.35d%
Sept. 22	£6 10s 6.51d%	Oct. 27	£5 14s 6.57d%
Sept. 29	£6 11s 0.48d%	Nov. 3	£5 8s 6.10d%
Oct. 6	£6 2s 5.80d%	Nov. 10	£5 8s 5.49d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	4½-5½%	2 months	5½-5½%
Fine Trade Bills		3 months	5½-5½%
3 months	6½-7½%	4 months	5½-5½%
4 months	6½-7½%	6 months	5½-5½%
6 months	7-8%		

Foreign Exchanges

New York	2.81 7/8-1/2	Frankfurt	11.26 3/4-27
Montreal	2.90 7/8-91	Milan	1746 1/2-7
Amsterdam	10.14 1/4-1/2	Oslo	20.04 1/2-1/2
Brussels	140.13 1/2-1/2	Paris	13.81 1/2-1/2
Copenhagen	19.38 1/2-1/2	Zürich	12.16 3/4-17 1/2

Gilt-edged

Consols 4%	59 11/16	Funding 3% 59-69	82 1/8
Consols 2½%	39 1/8	Savings 3% 60-70	80 1/8
Conv'sion 5½% 1974	92 11/16xd	Savings 3% 65-75	71 11/16
Conversion 5% 1971	93 1/8	Savings 2½% 64-67	84 11/16
Conversion 3½% 1969	85 11/16	Treasury 5½% 2008-12	84 11/16
Conversion 3½%	52 1/8	Treasury 5% 86-89	82 11/16
Exchequer 5½% 1966	98 1/8	Treas'ry 3½% 77-80	69 11/16xd
Funding 5½% 82-84	93	Treasury 3½% 79-81	69 11/16
Funding 4% 60-90	89 11/16	Treasury 2½%	37 1/8
Funding 3½% 99-04	57 11/16	Victory 4%	94 1/8
Funding 3% 66-68	84 11/16	War Loan 3½%	52 11/16xd

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Whither Bank Rate?

SIR, - You state, in your issue of November 11th, that it is estimated that over £100 million was attracted to London in October as a result of our high Bank rate. You then go on to say: 'High interest rates and credit restrictions may be imperfect methods of economic stabilization, but until new methods have been devised they will have to serve.' The disadvantages of borrowing 'hot money' at high rates of interest should be immediately apparent to accountants, so that there is no need to dwell on this point. But is it not time that our profession began to give a little help to a confused and misguided Government?

I am thinking in particular of the effects of the legislation which gave tax advantages to overseas trade corporations, thus discouraging British parent companies from remitting home the earnings of their subsidiaries abroad. These effects must be peculiarly within the knowledge of members of our profession, and are perhaps the main single factor in the drop in invisible earnings which, again, is the largest single element in the progressively unfavourable movement of our balance of payments. A factual report on the situation as it has developed since 1957 would be of great utility at this moment.

Similarly, the indiscriminate credit squeeze which the Treasury has initiated must be damaging our most efficient industries as well as restricting the expansion of production in the private (but not the public) sector. Facts relating to the effects of the credit squeeze on otherwise viable and valuable businesses are also within our field of activity. Should we not collect and publish them?

Yours truly,
London SW7. KENNETH S. MOST,
LL.B., F.C.A.

[A leading article dealing with invisible earnings appears elsewhere in this issue - Editor.]

The Inclusion of Oncost in Stock

SIR, - I entirely agree with your correspondent Mr Ernest K. Gross (November 4th issue) in his comments on Mr Sydenham's paper reproduced in *The Accountant* of October 14th and 21st.

The direct cost method may be applicable in

certain circumstances e.g. *Duple Motor Bodies* case, but it cannot be applied in all cases. Work in progress necessitates direct expenditure as well as indirect. It shows a completely false position to omit all oncost. Oncost is incurred along with direct costs, and to show a true and fair view must generally be included in the figure arrived at for work in progress.

The Inland Revenue have stated that they prefer the inclusion of some indirect expenses and I think their contention is right, otherwise the true profit of a business is not shown. To arrive at an equitable charge for taxation the 'oncost method' is by far the most orthodox.

To argue that 'oncost' is approximate is no case against their inclusion, for all costs are approximate to a certain degree.

Although disagreeing with Mr Sydenham on the above points, I found his paper most informative, and it has provided much 'food' for thought.

Yours faithfully,
Leeds, 6. A. J. CASEY, F.B.I.

'Small Practitioner' Inquiry

SIR, - Those of us who practise in the country will be heartened by the letter of the President of The Institute of Chartered Accountants in England and Wales in your issue of October 21st, 1961, and hope that at last the Council may do something towards helping us with our problems in country practices.

Would it not help those who are not members of district societies if the questionnaire were to be published in your columns; in fact, I think it might have been sent to all practitioners and the information collated by the Institute.

Yours faithfully,
Chelmsford. ROBERT BARLOW,
V.R.D., F.C.A.

SIR, - Considerable publicity has been given in recent years to the subject of the activities of unqualified accountants. It would appear that the Institute's present 'Small Practitioner' inquiry bears heavily on this subject and, since you have opened your columns to readers who seek to debar all but qualified accountants from practising, I shall be grateful if you will allow me a few words in reply to these criticisms.

May I first of all state that I do not advocate the indiscriminate right of any individual to hold himself forth as being capable of dealing with the taxation and accounting problems of the public. Doubtless there are many persons without adequate training or knowledge who are practising as 'Accountants and Auditors' and I would consider it most desirable that the activities of such persons should be curtailed.

But what of the many individuals who, after many years' experience in the profession, decide to branch out on their own? Or the much larger number of

senior assistants who, in order to augment their income, prepare accounts for their local butcher and for friends and neighbours? I would consider it highly debatable as to whether such individuals are any less capable than the newly-qualified accountant who sets up in practice, often with very little experience in a senior capacity. Is the lack of a professional qualification to debar the former from the activities which I have outlined, whilst the latter may accept professional work of a type which he may never have encountered during his training?

The apparent desire for a 'closed shop' appears to completely ignore the rights of the experienced (though unqualified) accountant and I would respectfully ask that the Institute should give consideration to the claims of such individuals.

Yours faithfully,
MANAGING CLERK (Unqualified).

Should Britain Decimalize?

SIR, - Mr Foulger (November 4th issue) is correct in recalling that shop assistants on the Continent resort to pencil and paper when one makes several purchases at one time. This is a practice which, unfortunately, is not often done in this country. How often does he, or the general public at large, check the total payment demanded, for instance, at the grocers? Both my wife and I find innumerable mistakes when the bill is totalled mentally and these are seldom in our favour. Fortunately, self-service shops are now remedying this defect with their list adders.

If decimalization results in fairer treatment to the customer, then this is a minor point in its favour.

Yours faithfully,
Wakefield. P. C. MACCORMAC.

Trustee Investments Act, 1961

SIR, - I am sorry but I cannot go all the way with your leading article of November 4th. If I may say so, it is over-simplifying the case to say that 'it is, after all, always open to settlors and testators to give their trustees powers wider than those conferred by statute'. What is to happen when the trust is in existence and both settlors and testators have passed on? Concerning the final sentence of your leader, I would not be so dogmatic concerning future judgments!

The Solicitor-General on May 9th last, moved a new clause in the Bill to provide that the investment powers of trustees could be enlarged by the Courts in the future, as hitherto; certainly to a simple layman Clause 15 of the Act embodies this proposal. If it does not mean what it states, why is it part of the Act?

As a result of these first actions before the Courts, any trustees, anxious to deal fairly with both life-tenants and remaindermen, will hesitate before incurring costs in pursuing what, to them, is a course perfectly feasible under the Act. Is this Act going the

way of the late Scientific Societies Act - born of good intentions but slowly to be strangled by the interpretation of the Courts?

Yours faithfully,
Morden, Surrey. N. A. W. LE GRAND.

[We agree, of course, that prior to the Trustee Investments Act, 1961, there existed many settlements, founded *inter vivos* or by will, under which the trustees were fettered in their choice of investments in a manner which the settlors would not have wished, had they been able to foresee what loss the beneficiaries would suffer; moreover, in the case of *inter vivos* settlements, there was often no means of altering the position without resort to the Court, although the settlor was still alive. It is this state of affairs that the Act cures, by providing trustees in such cases with a field of investment which is altogether more flexible and practical than the old statutory range ever was. Section 15 was not strictly speaking necessary, since the existing discretion of the Court would without it have continued unimpaired, there being nothing in the Act to take it away; but its inclusion makes abundantly clear the fact that the discretion is still there, to be used in any case where the Court is satisfied that the circumstances make desirable some enlargement of the statutory investment range. On the other hand, it is clear that the judges will not exercise their discretion so as deliberately to bring the practice of the Court into conflict with the considered opinions of the Legislature, and trustees should certainly hesitate to incur costs unless they are quite satisfied that their beneficiaries will suffer real hardship if the trust fund cannot be invested outside the provisions of the Act. - Editor.]

Duplicate Payments

SIR, - My managing director is seriously concerned about the possibility of making expense payments twice, and has asked me to suggest a system which will prevent this happening. There is, of course, no problem with invoices which can be tied up with orders; and he accepts this fact, but is more concerned about once-for-all payments such as introductory commission on the purchase of a business or land etc.

I have explained that whilst no one is infallible, a combination of memory and the inquiries and checks that are made when periodic accounts are prepared, would almost certainly throw up a duplicate payment of any size, but he does not think that this is sufficient. One cannot achieve the desired end by putting every single payment through the bought ledger, because machine accounting is used and 'dead' cards are taken out regularly. A card relating to single payments of the type mentioned would, therefore, be taken out after about three months. If the invoice was rendered again after that time, it is unlikely that the previous card would be either seen or remembered.

Some of your readers will have met a similar request and I should very much like to hear how they coped with it.

Yours faithfully,
D. A. F.

SHIPBUILDING AND ACCOUNTANCY

Northern Society of Chartered Accountants' Annual Dinner

More than 300 members and guests attended the annual dinner of the Northern Society of Chartered Accountants, held at the Old Assembly Rooms, Newcastle, on Friday, November 10th, and presided over by the Society's President, Mr P. T. Duxbury, F.C.A.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr E. J. Hunter, C.B.E., B.Sc., M.I.N.A., M.I.M.A.R.E., J.P., of Swan, Hunter & Wigham Richardson Ltd, the Tyneside shipbuilders, said that he regarded his task as a very important one.

In public and in private, he said, fully qualified chartered accountants had become one of the most indispensable sections of the community. 'It was reckless to offend your bank manager but to be disrespectful towards your accountant was absolute folly', he declared amid laughter. As company finance became more intricate and the general public put their savings into public companies, the responsibility of the chartered accountant became greater. No one appreciated the integrity and judgment of chartered accountants more than those whose task it was to run large industrial organizations - in fact many were run by chartered accountants. Their ability to inspire confidence and supervise and plan the work of others was of the first importance in industry today.

The provision of the best production layout and equipment, the planning of production, the control of finance and the sale of the eventual product all depended for their success upon leadership from the top and good relations in industry. Unless this was achieved, no enterprise could succeed.

It was simply not enough today to plan business from the financial angle alone. Unless the human needs and dignity and aspirations of all who served were taken into

account - even if this meant some deviation from what would otherwise appear to be ideal - progress would be stultified and financial failure inevitable. Planning which disregarded human nature and feelings could never succeed.

Sympathetic Link

Fortunately, he declared, there had been a sympathetic link between accountancy and shipbuilding for a very long time. The business of building ships was vital to Tyneside and to the nation as well, and was one of the oldest in the world. More recently the Government decided to take this union of shipbuilding and accountancy a stage further and the results were seen in the findings by a well-known firm of chartered accountants appointed to perform the task, although their findings, under the terms of reference, could only be historical and could not represent the position as it was today.

The majority of British shipbuilders, said Mr Hunter, were offering delivery dates which were being maintained or bettered at fixed prices which compared favourably with those obtainable abroad. This was not to say that they should endeavour to produce the cheapest article - quality and economic value should always be given due weight in their thinking and, indeed, in the considerations of those who bought the ships.

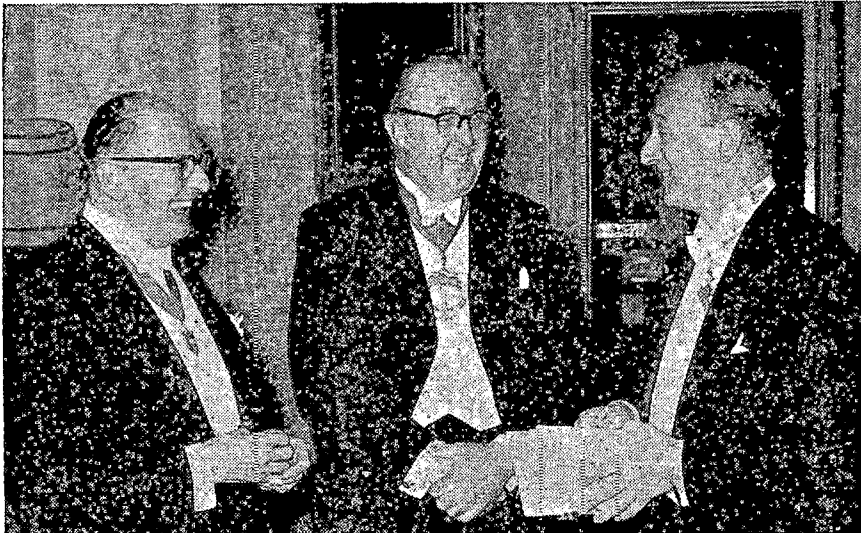
He believed that if the British Merchant Navy - 'of paramount importance to this country and its future safety and well-being' - was not to shrink, it was vital that the Government should take steps to see that credit was made available on favourable terms to British owners and to do so at once. This was a point on which the accountants' report did not touch, because they were not asked to do so. But it was virtually impossible

today to secure an order from foreign owners unless credit terms could be offered and these, apart from exceptional circumstances, it was not possible to obtain in this country today.

Surely, he asked, in the light of the current balance of payments crisis, accentuated by the decline in invisible exports, of which shipbuilding was always an important part, these were matters which deserved, indeed demanded, urgent consideration at the highest level.

Liaison with District Societies

In his response to the toast, Mr P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales, said



Mr P. T. Duxbury, F.C.A., President of the Northern Society (left), with Mr P. F. Granger, F.C.A., President of the Institute, and Mr E. J. Hunter, C.B.E., B.Sc., M.I.N.A., M.I.M.A.R.E.

that now, from an administrative point of view, the Institute was coming within the category of 'big business', for membership was in the region of 35,000, quite apart from articled clerks, of whom the intake at present was about 3,000 per annum. He continued:

'In order to ensure that the new recruits are the very best we can get, as close touch as possible is maintained with our members. We have no less than fourteen district societies of which our hosts tonight are members of one. Most of these district societies have branches, or groups, since their areas are large and they have to decentralize. Accordingly our link with the individual member, whether in practice or in industry or any other job, is through your Council member, through your district society committee and branch or group down to the individual. . . .

'I have mentioned this work of the district societies and branches and groups at length because there may be a possible feeling in some quarters that the elephant at Moorgate Place is oblivious to what is going on in foreign parts. I think your Council member and your members on the Taxation and Research Committee will assure you that at no time has there been a greater interest taken in

members' problems. We are up against a common difficulty of today—that of communicating with our members in a form which does not make head office appear remote or our members at a distance, and that we both talk the same language. Words are peculiar things and sometimes they have no demarcation. One has only to think of the term democracy and see its use in various parts of the world to appreciate this. We find a difficulty in defining what is profit and possibly loss.'

In conclusion, Mr Granger said that as a nation Britain was moving into fresh fields of endeavour, and the Common Market and the results of the present negotiations were 'in all our minds'. Either way, he said, it was apparent that facts and figures relating to business activities would be necessary and 'while the production of facts and figures is necessary, it is what they mean that is all-important'.

The toast of 'The Guests' was proposed with wit and humour by Mr D. B. Ward, M.B.E., F.C.A., and Mr E. L. F. Bitterman, O.B.E., Clerk to Tynemouth Magistrates, replied on behalf of the guests.

SIMPLIFICATION AND SPECIALIZATION

Chartered Accountants' Dinner at Middlesbrough

'Accountants could make a major contribution to the 1961 British Productivity Year by devising a new and simplified system of records and record keeping which would cut out an enormous waste of manpower,' declared Mr Bertram Nelson, C.B.E., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, at Middlesbrough on November 8th. Mr Nelson was responding to the toast of 'The Institute' at the twelfth annual dinner of the North Yorkshire and South Durham Branch of the Northern Society of Chartered Accountants, presided over by the Branch Chairman, Mr J. H. Eltringham, M.B.E., T.D., B.COM., F.C.A.

Three Aspects

Mr Nelson referred to three aspects of the work of accountants in practice and in industry. The first, he said, related to the routine work of book-keeping. He recalled that in his early days he remembered the smallness of offices, where, if anyone wanted to find out anything, all one did was to step outside and ask somebody. But with the large-scale enterprises of today there was an enormous amount of routine work. Mr Nelson suggested that clients and directors should ask their accountants to simplify procedures, because an immense amount of time was being spent by the profession on incomplete records, and much ability was being wasted in this direction.

The second aspect related to the accountant as an adviser. The accountant, Mr Nelson said, should be concerned not only with interpreting the past, but with giving advice on action to be taken for the future. A great deal of their work was based on looking at what had happened in the past, but they ought to be increasingly looking to the future to fit themselves for advisory work.

Mr Nelson said that the third aspect of the account-

ant's work related to specialized services. In the United States there had been a virtual eclipse of medium-sized firms during the last ten years due to a lack of specialist services, which worked to the disadvantage of the community.

Mr Nelson gave examples of how accountants might be able to develop specialist services, such as in the field of computers, management accounting and in international financial problems.

One of the few philosophers who had written about business and commerce was Whitehead, who had said: 'The behaviour of the whole community is largely dominated by the business man, and a great society is that in which men of business think greatly of their functions.' That, Mr Nelson added, was the real message he had to give.

Growth of the Institute

Proposing the toast of 'The Institute', Mr K. A. Kindon, Tees-Side traffic manager for British Railways, and President of the Tees-Side and South West Durham Chamber of Commerce, said that he knew little about the Institute of Chartered Accountants, although as a young man he had nearly entered the profession.

But he had been told that when the amalgamation of 1880 took place which brought the Institute into being, there was then a membership of something like 500, and this had now grown to about 35,000. 'Somebody has done an extremely good job of salesmanship in the meantime', he commented.

The toast of 'Our Guests' was proposed by Mr R. A. Branson, F.C.A., a member of the Branch committee, and was responded to by Mr Neil G. Forster, T.D., President of the Durham and North Yorkshire Law Society.

A monthly feature designed to keep readers - whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

New Office

Revolutionary Typewriter

A GENUINELY new development in typewriter design is a notable event. There can be no hesitation in acclaiming the *IBM 72* as such.

This new electric machine has no type bars and a fixed carriage. A spherical typing head, about the size of a golf ball, is mounted on a carrier which moves along a cylindrical rod across the paper. As a key is struck, the typing head rotates and tilts to bring the chosen character into the printing position. It then rocks against the ribbon and paper to form the actual impression.

What does this mean in practical terms? First, that six different type faces can be used on the same machine; the change is effected merely by unclipping the print head and substituting another. Second, a speed of 180 words per minute can be reached: not significant to the average operator, obviously, but it does mean that even the fastest and most irregular strokes cannot jam up the machine. Third, noise and vibration have been reduced significantly. And, because there is no moving carriage, the machine can be used in a smaller space. It is also lighter in weight. Another useful feature is quick ribbon change: a clip-on cartridge is mounted on the typing carrier.

No re-learning is necessary, since the *72* is operated in the same way as an ordinary typewriter. There are two models, both in an opal-grey finish: one for paper up to 11 in. wide, the other for paper up to 15½ in. wide.

Prices: £171 and £189.

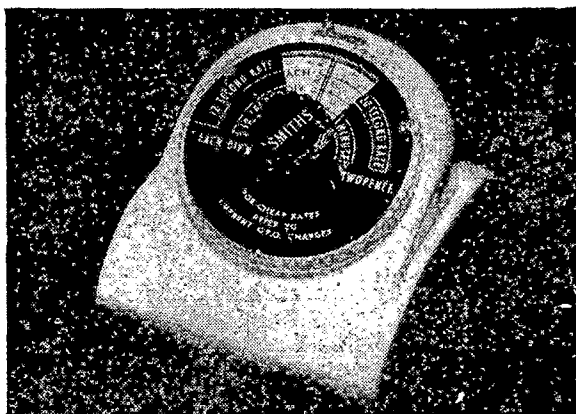
IBM United Kingdom Ltd, 101 Wigmore Street, London W1.



New IBM 72 Electric Typewriter

Telephone Call Timer

JUST how much subscriber trunk dialling can cut - or alarmingly increase - the size of telephone bills depends entirely on the subscriber. A new device made by a well-known company serves a useful purpose in reminding speakers that, on the telephone, time literally is money.



The Smiths Telephone Timer

Telephone Timer shows automatically at a glance the cost, in twopenny units, on all calls of up to fifteen minutes' duration. And at three-minute intervals it sounds a discreet warning bell to replace the 'pips' abolished under the new system.

As soon as the call begins, the speaker flicks the *Timer's* switch on; as he replaces the receiver, he uses the same lever to turn the device off. The cost of the call can be noted before returning the setting mechanism to zero ready for the next call.

The *Timer*, which is strongly made, is supplied in cream or black.

Price: 37s 9d.

Smiths Clocks & Watches Ltd, Setric House, Waterloo Road, London NW2.

Better Presentation of Figures

THE new *Gestetner 380* duplicator has been primarily designed for high-quality reproduction on large sheets of non-duplicating paper - balance sheets, monthly statistical reports, work schedules, etc. In such cases it not only enables more information to be printed on one page but gives greater readability and better appearance.

At the same time it incorporates the established features of the 300 series of machines and can thus handle all kinds of office duplicating on all kinds of paper, down to 5-inch by 3-inch postcards.

The machine works automatically. In conjunction with a self-centring pressure frame, the automatic ink control ensures that every detail of the original matter,

quipment

including fractions and decimals, is reproduced clearly.

The self-adjusting paper feed handles all types of paper from airmail to thick board. Printed sheets are neatly stacked on a delivery tray. Where 'non-duplicating' paper is used, absorbent pads are automatically inserted between successive sheets, thus eliminating any chance of 'set-off'.

For convenience, all controls are grouped at one side of the machine. An operator with no previous experience of duplicating can produce first-class results.

An automatic counter, which can be pre-set to any quantity up to one hundred copies, stops the machine at the end of the required run.

Price: £265.

Gestetner Ltd, Gestetner House, 210 Euston Road, London NW1.

Aid to Fast Form Printing

AUTOMATIC printers are now capable of producing multi-part business forms at phenomenally high speeds. But much of this advantage is lost if there is delay or inefficiency in dealing with the forms after they have been printed.

For this reason Lamson Paragon Ltd have developed a high-speed decollator which automatically removes the one-time carbons from continuous stationery and breaks down the sets into individual lengths.

It handles forms up to 12 in. deep and operates at variable speeds of up to 300 ft. per minute. The continuous forms are drawn into the machine by abrasive rollers and the carbon is fed through a split roller which is easily detached for cleaning.

One run through the decollator is needed to remove each carbon. Multiple sets are then decollated in subsequent operations. For example, a four-part set would be broken down into two two-part sets, which, in turn, would be reduced to single lengths of continuous forms.

The forms and carbons must be either loose or only temporarily fixed (for example, by the 'Hooklock' make-up system).

The new decollator occupies approximately one square yard of floor space.

Price: On Application.

Lamson Paragon Ltd, Paragon Works, London E16.

Automatic Add/Lister

JOINT development by British Olivetti and Ultra Electronics has produced a special version of the Olivetti *Elettrosomma 22* adding/listing machine which can be incorporated in automatic data processing systems.

The new machine retains all features of the manually-operated *Elettrosomma 22*. But in addition certain keys can be operated automatically by electric impulses derived from punched paper tape, punched cards or magnetic tape.

The operation is done by a solenoid unit. Ultra Electronics can supply equipment for converting tape data to electric impulses.

Linked to other automatic office machines, the new model can provide output for various accounting operations. It can also be used for printing numerical data received by telegraph lines—in this case check totals are computed and recorded automatically.

The output rate during solenoid operation is over ten characters per second.

The machine is available in two forms: decimal/sterling and decimal only.

Price: Approximately £175 for either decimal/sterling or decimal only version.

Ultra Electronics Ltd, Western Avenue, Acton, London W3.

Mechanized Mailing

RECENT rises in postal charges and the high cost of stationery sharpen interest in economy measures. Thus, the latest version of the *Mailmaster Mailtuk* machine will be found worthy of investigation by accountants, since it provides a method of dispatching invoices, statements and similar documents, plus one enclosure, without envelopes.



The Mailmaster Mailtuk

Twin Feed Mailtuk has two synchronized hoppers, into which a pile of statements and a pile of enclosures are placed. The machine automatically takes one sheet from each hopper, folds these together and creases them twice. It then turns over both creases to form flaps, tucks one flap into the other, and ejects the finished items on to a stacking tray. Operating speed is 2,000 to 3,000 pieces per hour.

Savings made by a machine of this kind usually soon offset its cost. Envelopes are, of course, dispensed with, as is the slow and tiresome job of folding and stuffing. No separate mailing is needed for such items as change of address notices, advertising leaflets, etc.

The machine is designed and made in England. The original, single-feed, model has been on the market for more than four years and is in extensive use by local authorities and large companies.

Complete with 3 ft. stacker, the new machine measures 8 ft. long by 5 ft. wide.

Price: £650.

Kemp Applications Sales Ltd, 25 Coombe Road, New Malden, Surrey.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

List of Members 1962

We have been asked by the Secretary of the Institute to remind members that the latest date for the receipt of changes of address and other details for inclusion in 1962 *List of Members* is December 1st, 1961.

PROFESSIONAL NOTICES

MESSRS VERNON C. BAKER & Co, Chartered Accountants of Adam House, 1 Fitzroy Square, London W1, announce that MR G. J. EDKINS, A.C.A., has been appointed a partner as from November 1st, 1961.

MESSRS BUTLER, VINEY & CHILDS and MESSRS THOMSON, GREGORY, THOL & Co, announce the retirement of Mr E. STANLEY THORN, F.C.A., as a partner with effect from November 1st, 1961. MR THORN, who has been a member of the Institute for more than 50 years, remains available as a consultant.

MESSRS CHALMERS, WADE & Co, and MESSRS IMPEY, CUDWORTH & Co announce that they are amalgamating their practices as from December 1st, 1961 and that as from that date the joint practice will be carried on under the name of CHALMERS, WADE, IMPEY, CUDWORTH & Co. They also announce that, on December 1st, 1961, they are admitting to partnership Mr JOHN ATTWOOD HUTCHINGS, M.A., A.C.A., who is a member of the staff of the London office of CHALMERS, WADE & Co and that on December 31st, 1961, Mr H. A. BEALE, F.C.A. will retire from practice but will be available as a consultant. On November 20th, 1961, the London offices of both firms are removing to St Alphage House, London Wall, London EC2, and on November 23rd, 1961, the Warrington office is removing to 17 Palmyra Square South, Warrington.

Mr T. A. A. KILNER, A.C.A., announces that he has taken Mr W. R. PACKER, M.A., A.C.A., into partnership. The practice will continue under the style of C. T. KILNER & Co, Chartered Accountants, at 21 Lower Belgrave Street, London SW1.

Mr A. B. SNOW, F.C.A., of 10 Pall Mall, Hanley, Stoke-on-Trent, announces that he has been joined in partnership by his son Mr GEOFFREY BERNARD SNOW, A.C.A. The practice will continue to be carried on in the name of A. B. SNOW, WOOD & Co.

MESSRS SPAIN BROTHERS & Co, Chartered Accountants, of 1 Old Burlington Street, London W1, announce that Mr PETER LAWRENCE, A.C.A., became a partner in that firm on November 1st, 1961. Mr LAWRENCE has been since 1958, and will continue to be, a partner of the associated firm of SPAIN BROTHERS, McNAB & Co, of Tunbridge Wells and elsewhere.

Appointments

Mr W. F. Curtis, F.C.A., has been appointed a member of the South Western Electricity Consultative Council by the Minister of Power.

Mr Archie Bell, F.C.A., has been appointed an additional director of United Counties Stores Ltd.

Mr Nigel J. Bennett, D.F.C., F.C.A., has been appointed special overseas representative of Tecalemit Ltd. He will continue as managing director of British Filters Ltd.

Mr J. S. Harrower, F.C.A., has been appointed financial controller to the Attwood Group of Companies.

Mr James R. Porter, F.C.A., chief accountant of Mobil Oil Co Ltd, has been appointed controller of the newly-formed Northern and South Eastern Europe Region of Mobil International Oil Company.

Mr E. W. Argent, A.C.A., accountant to Hastings and Thanet Building Society, will become the Society's secretary and chief accountant as from January 1st, 1962.

Mr Harold Boothby, A.C.A., has been appointed accountant and secretary of The Central Motor Co, 1919 (Kettering), Ltd, and its subsidiary company, Central Motors (Agricultural) Ltd.

Mr J. F. Dempsey, A.C.A., general manager of Aer Lingus, Irish International Airlines, has been elected President of the International Air Transport Association. He will take office in 1962.

Mr John E. Price, A.C.A., has been appointed treasurer of the National Spastics Society.

Mr H. Wilcock, A.C.A., has been appointed secretary of Manchester Dry Docks Co Ltd.

Mr Peter B. Wood, A.C.A., has been appointed chief accountant in the Treasurer's Department of Associated Electrical Industries Ltd.

Mr Angus Henry Campbell, C.A., has been appointed chief financial officer of the Central Electricity Generating Board.

Mr G. I. Stewart, C.B.E., M.C., C.A., has been elected chairman of Lake View Investment Trust Ltd.

Mr R. A. Smith, A.C.A., has been appointed accountant to the Equitable Life Assurance Society Ltd.

Mr Cyril Bone, F.A.C.C.A., accountant and secretary of Vinyl Products Ltd, has been appointed to the board of the company.

Mr Victor D. Fenton, A.A.C.C.A., accountant of International Rectifier Co (Great Britain) Ltd, has been appointed secretary of the company.

IN PARLIAMENT

Offices Act, 1960: Implementation

Mr COULSON asked the Minister of Labour when legislation will be introduced dealing with the safety, health and welfare of workers in shops, offices and railway premises.

Mr HARE: As my right hon. friend the Home Secretary told the House on July 28th, 1960, the Government had intended to introduce a Bill on this subject before the Offices Act, 1960, entered into force

on January 1st, 1962. The programme of essential legislation for the current session is, however, already so full that it has been reluctantly decided that there will not be time for proper Parliamentary examination of this complex and far-reaching measure. The Government's comprehensive Bill on the subject will therefore be deferred until the 1962-63 session of Parliament. Since this legislation will be introduced in the autumn of 1962, no action will be taken in the meantime to implement the Offices Act, 1960.

Hansard, Nov. 1st, 1961. Written Answers. Col. 4.

£ Sterling: Purchasing Power

Mr DE FREITAS asked the Chancellor of the Exchequer whether he is aware that taking the internal purchasing power of the £ sterling as 20s in October 1951, it had declined to 18s in September 1954, and to 15s 10d in September 1957; and what was the comparable figure for September 1961.

Sir E. BOYLE: Yes, on the basis of the retail price index. The comparable figure for September 1961 was 14s 6d.

Hansard, Oct. 24th, 1961. Written Answers. Col. 28.

Export Incentives

Sir W. ROBSON BROWN asked the Chancellor of the Exchequer, in view of the negotiations which are proceeding for the entry of the United Kingdom into the Common Market, if he will seek information about the financial incentives which are given to exporters in countries which are members of the Common Market and the percentage of turnover tax remitted in those countries on that part of a company's business represented by exports; and, having regard to the necessity for export incentives, if he will consider the desirability of a turnover tax, reducing profits tax proportionally, and remitting the whole of such turnover tax on that part of a company's trading which is represented by exports.

Mr BARBER: Her Majesty's Government have already collected a wide range of information of this kind and they are keeping in close touch with developments. The answer to the second part of the question is that consideration is constantly being given to various means, including fiscal changes, of expanding exports.

Hansard, Nov. 8th, 1961. Written Answers. Col. 66.

Graduated Pension Scheme

Mr HOUGHTON asked the Minister of Pensions and National Insurance approximately how many persons are paying graduated contributions; what proportion this is of the total number of persons insured in Class I; how many persons have contracted out; and what is the current flow of applications to be granted certificates of non-participating employment.

Mr BOYD-CARPENTER: The number paying graduated contributions will not be known until employers' P.A.Y.E. returns for the year 1961-62 have been received and analysed. A total of 4,385,280 employees have been contracted out. The number of employees covered by certificates issued since April 3rd of this year is 92,832 and certificates have been issued in the

last few weeks at a rate increasing this number by an average of about 1,200 per week.

Hansard, November 13th, 1961. Oral Answers. Col. 5.

HURRICANE 'HATTIE'

Belize Chartered Accountant and Family Safe

We understand from Messrs Pannell, Crewdson & Hardy, Chartered Accountants, that they have heard from their office in Belize, British Honduras, that the resident partner, Mr T. B. Tattersfield, F.C.A., and the staff, with their wives and families, are all safe, after hurricane 'Hattie' struck the town on October 31st, causing widespread damage and loss of life. The firm's office in North Front Street has been destroyed, but it is hoped to resume work shortly in other premises.

Mr Tattersfield and his family spent a frightening night during the storm, which lasted for several hours. However, their refuge stood up well and apart from being wet they were unharmed. Windows in their house were blown out and the roof was holed by flying debris. Outside, all the fences, gates and the front and back stairways to their residence were washed away.

Although the firm's office was destroyed, Mr Tattersfield was able to rescue intact three years' working papers for clients and the correspondence files. Much of the furniture, however, was very badly damaged, and some—together with a calculating machine—just vanished completely.

We extend our sincere sympathy to Mr Tattersfield and his staff in the worrying, difficult period they are undergoing.

FESTIVAL OF THE CITY OF LONDON

A non-profit-making company with charitable objects was formed last week to sponsor the Festival of the City of London (approved by the Court of Common Council earlier this month) which is to be held from July 9th-21st next year.

The company, which will be known as the City Arts Trust, will have as its president Sir Frederick Hoare, the Lord Mayor of London. The Earl of Drogheda has accepted an invitation to be chairman and the directors include Mr K. R. Cork, F.C.A., senior partner in the firm of W. H. Cork, Gully & Co, Chartered Accountants, of London. The honorary auditors of the trust are Messrs Price Waterhouse & Co.

MANUFACTURERS RECOMMEND DECIMAL COINAGE

In view of the growing attention to European matters and the need for more trade with Europe, the National Union of Manufacturers believe that the United Kingdom currency should be converted as speedily as possible to a decimal system. It is thought by the Union that this might also materially assist in the expansion of United Kingdom exports to Europe.

On the question of entry to the Common Market, the Union lends support to the Government provided that steps are taken to safeguard the interests of the Commonwealth, to ensure that there are no rises in the cost of living due to changes in the agricultural struc-

ture and to prevent sudden and disruptive competition in particular fields, including dumping of European products on the United Kingdom market.

New Title

On Wednesday of this week, the Union's change of name to The National Association of British Manufacturers took effect. The principal reason for this alteration is in order that the name shall be free of any ambiguity and may be recognized at once both at home and overseas as an association of British manufacturers—especially in view of Britain's possible entry into the Common Market.

GRIMSBY CHARTERED ACCOUNTANTS' DINNER

The annual dinner of The Grimsby & North Lincolnshire Branch was held at the Royal Hotel, Grimsby, on November 9th. Mr W. McWilliam, F.C.A., presided, supported by Mr A. A. Beardsall, F.C.A., Mr G. R. Watson, F.C.A., and Mr D. L. Stephenson, F.C.A. Over one hundred members and guests were present including the Mayor of Grimsby, Councillor G. H. Pearson, and

Professor J. S. G. Wilson, M.A. (*Department of Economics & Commerce, Hull University*); Messrs Douglas A. Clarke, LL.B., F.C.A. (*Member of the Council of the Institute*); A. McDonald, F.C.A. (*Vice-President, Hull, East Yorkshire & Lincolnshire Society*) (representing the President); E. N. Turner, A.R.I.B.A. (*Chairman, North Lincolnshire Branch, Nottingham, Derby & Lincoln Society of Architects*); E. W. Hyde, A.C.I.I. (*President, The Insurance Institute of Grimsby*); H. Stephenson (*Chairman, Grimsby & District Chamber of Trade*); H. L. Dring (*President, The Great Grimsby Incorporated Chamber of Commerce & Shipping*); G. Green (*Hon. Secretary, Chartered Accountants' Students' Society of North Lincolnshire*); G. W. Evans, representing R. A. Sloan (*President, Grimsby & District, Local Centre, the Institute of Bankers*); S. Adams (*H.M. Inspector of Taxes, Grimsby 1st District*); G. L. Williams (*H.M. Inspector of Taxes, Grimsby 2nd District*); Alderman I. Abrahams, O.B.E., J.P. (*Chairman, Grimsby Division General Commissioners of Income Tax*).

In proposing the toast 'The Institute of Chartered Accountants in England and Wales', Professor Wilson said that there was a need for developing a partnership between the accountancy profession and the universities and that as far as he was concerned he would give his fullest co-operation. In fact the Hull University would, in the very near future, be making experiments in this direction. Responding, Mr Douglas A. Clarke remarked on the high standard of accounting called for by the diversified industry in Grimsby and district.

Mr G. R. Douglas, in responding to the toast 'The Guests', which had been ably proposed by Mr D. L.

Stephenson, referred to the Common Market and said that as a farmer he was not afraid of it, but that the farming industry had been used as a whipping boy by other industries that were afraid. He added that with changing conditions the farmer looked to his accountant for more help and information in the preparation of his accounts.

BIRMINGHAM & DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

A one-day conference of Shropshire and Herefordshire practising members was held at Welshpool on November 7th, Mr C. J. Mason, F.C.A., President of the Birmingham and District Society of Chartered Accountants, was in the chair.

Mr W. R. Dean, B.A., F.C.A., gave a paper on 'The preparation of farm accounts'. Mr D. E. T. Tanfield, F.C.A., Vice-President of the Society; Mr Gordon Major, T.D., B.COM., F.C.A., Secretary of the Society, and Mr Stanley Kitchen, F.C.A., a past president of the Society, assisted in the group discussion on current problems of practising accountants.

THE READING AND DISTRICT GROUP OF CHARTERED ACCOUNTANTS

Annual General Meeting

The annual general meeting of The Reading and District Group of Chartered Accountants was held at the Liberal Club, Blagrove Street, Reading, on November 6th. In the absence of the chairman, the vice-chairman, Mr K. W. Clark, F.C.A., presided.

Elections for the coming year were as follows:

Chairman: Mr K. W. Clark, F.C.A.

Vice-Chairman: Mr W. H. V. Whitcher, F.C.A.

Hon. Secretary and Treasurer: Mr D. J. L. Cook, A.C.A., 2 Waverley Court, Southcote Road, Reading.

Committee Members: Messrs W. G. K. Ames, F.C.A., J. Sewell, A.C.A., M. E. Cunningham-Craig, F.C.A., D. H. Hill, F.C.A., G. C. Jones, F.C.A., B. Bubb, F.C.A.

Following the meeting, members present discussed the Parker Report on education and training for the profession. The discussion was led by Mr W. K. Wells, B.A., F.C.A., of London.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The Federation of London Christian Unions will hold a United Meeting at 6 p.m. on November 22nd, at City Temple Hall, Holborn Viaduct, London EC1, when the speaker will be Mr J. Neville Knox, L.A.M.T.P.I., Town Clerk of Harrogate.

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THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Next Week's Meetings

The following meetings of the London Students' Society will be held next week:

Monday, 5.30 p.m. at Winchester House, Old Broad Street, EC2. Lecture on 'Basis periods under Schedule D', by Mr Eric C. Meade, F.C.A., Chairman: Mr J. A. Jackson, F.C.A., Vice-President of the Students' Society.

Tuesday: Visit to Fords Motor Works (limited number).

Wednesday, 5.30 p.m. Film and demonstration of punched-card accounting (limited number).

Thursday, 5.15 p.m. at Winchester House: Introductory course lecture on 'Bankruptcy, liquidation and receivership', by Mr R. Lowe.

6 p.m., at Midland Bank, Poultry, EC2: Joint debate on the motion 'This house deplores the space rocket racket'.

Friday, 5.15 p.m., at Winchester House: Introductory course lectures on (1) 'Income tax - general introduction', by Mr J. Kennedy Melling, F.C.A., F.T.I.I., F.R.ECON.S., and (2) 'The law of agreements and damages', by Mr R. Lowe.

The London Articled Clerks' Diary for 1962 is now available at the Students' Society library, Spencer House, South Place, London EC2. (price 3s 6d, 4s by post).

CHARTERED ACCOUNTANTS' HOCKEY CLUB

The Secretary of the Chartered Accountants' Hockey Club (Mr S. N. Elgar, of 22 Queen Anne Street, London W1) will be glad to hear from hockey players, particularly those in the London area, who would like to represent the Institute in games which have been arranged for this season against The Law Society, the Chartered Surveyors, the Insurance Hockey Association, the Inland Revenue, the Bank of England, Oxford University Occasionals, etc. He will be pleased to consider articled clerks for selection in these games and put them in touch with their own student secretary who has arranged fixtures in Nottingham, Newcastle, Birmingham and Cardiff, as well as London.

As already announced, it is hoped to start the 1962-63 season with one or more matches in New York during the time of the International Congress, and hockey players who are hoping to attend the Congress and who would like to be considered for games against the Privateers and also, perhaps, the Dutch, German and Belgian institutes, should inform the secretary.

Mr C. O. Merriman, of Reigate, the former secretary, has joined Mr Dermot Tripp, of Surbiton, and Mr Desmond Craig, of Bulawayo, as a Vice-President of the Club, and the committee is now composed of the following members: Messrs S. N. Elgar (Hamp-

stead), N. F. Holland (Southgate), A. C. A. Myers (H.A.C.), E. F. Freer (Cheam), M. A. Charlton (Rickmansworth), P. E. Brayshaw (Southgate), M. L. Pecker (Royal Artillery), C. E. Sinnott (Worthing), S. J. Titcomb (Keymer), P. J. Boobbyer (Wimbledon).

CENSUS OF PRODUCTION FOR 1961

As already announced,¹ the Census of Production to be taken in 1962 for the year 1961 will be a sample inquiry and the questions asked will relate only to sales and work done, capital expenditure, and stocks and work in progress. An order prescribing the matters about which returns may be required has now been made by the Board of Trade.² Undertakings producing coal, gas, electricity, oil-shale, crude or refined petroleum or shale oil products are exempted from making Census of Production returns. (Information corresponding to that collected in the Census will be obtained from these undertakings by the Ministry of Power.)

LOCAL LOANS FUND: INTEREST RATES

The Treasury has announced that loans advanced from the Local Loans Fund to local authorities as from November 11th, 1961, will carry the following rates of interest:

	Per cent
Loans for not more than five years	6½ (7½)
Loans for more than five years but not more than fifteen years	6½ (7½)
Loans for more than fifteen years but not more than thirty years	6½ (7)
Loans for more than thirty years	6½ (7)

The present rates of interest (shown in brackets) have been in force since October 14th, 1961. The new rates apply only to future loans; the rates of interest on existing loans are unaffected. The present reductions reflect Treasury policy of keeping the lending rates of the Public Works Loan Board in line with those prevailing in the market for loans to local authorities.

RATE COLLECTION RETURN

The seventeenth biennial return of rate collection published recently by The Institute of Municipal Treasurers and Accountants,³ gives particulars of rate collection in all county boroughs, metropolitan boroughs, including the City of London and a repre-

¹ *The Accountant*, March 25th, 1961.

² Census of Production (1962) (Returns and Exempted Persons) Order, 1961 (S.I. 1961 No. 2098). H.M.S.O. 3d, by post 5½d.

³ *Rate Collection, 1960-61*, The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London SW1. 10s post free.

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sentative selection of 216 non-county boroughs, 194 urban districts and 121 rural districts.

The average cost of collection for each hundred assessments for county boroughs was £38 in 1960-61 compared with £34 in 1958-59. For the metropolitan boroughs and the City of London the average was £68 compared with £62, for non-county boroughs £48 (£42), urban districts £47 (£43) and rural districts £50 (£44). For all authorities the average was £46, a rise of £5 on the preceding two years.

New features in this year's issue include the number of instalments by which rates are payable, and the dates by which rates must be paid to obtain allowances under compounding agreements.

BRITISH PRODUCTIVITY COUNCIL

New Chairman Designate

Mr Harry Douglas, general secretary of The Iron and Steel Trades Confederation has been elected next year's chairman of the British Productivity Council. He will succeed Sir Bertram Waring, F.C.A., chairman and managing director, Joseph Lucas (Industries) Ltd, on January 1st next.

OFFICE APPLIANCE AND BUSINESS EQUIPMENT TRADES ASSOCIATION

Election of President and Change of Name

At the annual meeting of the Office Appliance and Business Equipment Trades Association held in London on October 30th, Mr Basil J. W. Coxeter (Gestetner Duplicators (B.S.O.) Ltd), was elected president for 1961-62.

His election coincides with a decision to shorten the Association's name to 'Business Equipment Trade Association'.

OFFICE EQUIPMENT EXPORTS

Exports of office equipment during September, amounting to £2,972,776, have brought the total for the first nine months of 1961 to £28,738,681 compared with £27,008,683 in 1960.

Sales for September to Europe, particularly France and Germany, showed a satisfactory rise over last year. Exports to Commonwealth countries remained average, with the exception of those to South Africa which showed a considerable drop - £57,781 compared with £201,892 in 1960.

Leading customers during the first nine months of 1961 were: Australia £2,645,106 (last year, £2,857,468), U.S.A. £2,078,697 (£1,644,931) and

South Africa £1,694,535 (£2,302,695). There were notable increases in exports to France £1,659,455 (£1,036,720), Japan £1,115,043 (£637,654) and India £125,982 (£32,206).

MANAGEMENT ACCOUNTING COURSES

A series of three one-day courses dealing with cost reduction, stock control and reduction and marginal costs are to be held in London from November 21st-23rd. They will be repeated in Manchester on December 5th and 6th, and on January 30th next. The courses will be presented by Dr James M. S. Risk, B.COM., PH.D., F.C.I.S., F.B.I.M.

Further details may be obtained from Management Courses Ltd, 18 Hanover Street, London W1.

LONDON UNIVERSITY LECTURES

A lecture on 'Employment, inflation and growth' by Professor A. W. Phillips, M.B.E., B.SC.(ECON.), PH.D., A.M.I.E.E., Tooke Professor of Economic Science and Statistics in the University of London, will be given on November 28th, at the London School of Economics and Political Science, Houghton Street, London W.C2. The chair will be taken by Sir Sydney Caine, K.C.M.G., B.SC.(ECON.), LL.D., director of the school. Admission is free and without ticket.

ROYAL SOCIETY OF ARTS

Cantor Lectures on Export

A series of three Cantor lectures on 'Some problems of British export trade' will be delivered at the Royal Society of Arts during this and next month. The lectures, which will commence at 6 p.m., are as follows:

November 20th: 'Exports and the country's economy', by Mr J. L. S. Steel, M.A., J.P., chairman, Overseas Trade Policy Committee, Federation of British Industries.

November 27th: 'Production for export', by Mr R. Geddes, O.B.E., managing director, Dunlop Rubber Co Ltd.

December 4th: 'Overseas marketing', by Mr Roger Falk, O.B.E., chairman, Marketing Development Co Ltd.

ECONOMIC CONDITIONS OVERSEAS

Two further booklets in the 1961 series containing comprehensive economic surveys of Spain and the Benelux Countries have recently been published by the Organization for European Economic Co-operation.

The booklets are available from H.M. Stationery Office, price 3s each.

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University Graduates and the Profession

WHEREAS in 1922 only 16.5 per cent of new solicitors were graduates, the comparable figure for 1960 was over 60 per cent. With the expected expansion of the universities this trend will undoubtedly continue.' The writer of a special article entitled 'Legal education in England' in *The Times* of November 14th thus drew attention to the major change which is taking place in the legal profession today. Within the next decade it is probable that that profession will make a law degree an essential qualification for practice, and the law will belatedly have achieved the status of a learned profession.

The accountant reading these statements may wish to consider their implications in the light of the facts revealed by the report of the Committee on Education and Training (the Parker Committee) appointed by the Council of The Institute of Chartered Accountants in England and Wales. According to the table on page 10 of the report, the percentage of graduates entering into articles to become members of the Institute rose from 10 per cent in 1952 to 11 per cent in 1959. If we can assume a rather higher success percentage for these students than the 76 per cent for all entrants, we may see the Institute attaining the lawyers' 1922 level soon after the year A.D. 2,000. This hardly indicates the prospects of a rapid improvement in the standards of the profession.

That improvement depends upon increasing the recruitment of university graduates can be illustrated by reference to the legal profession and argued in the light of known plans for education in the future. DICKENS has left us a well-drawn picture of the status of the lawyer one hundred years ago in his novel about the workings of Chancery, *Bleak House*, and the contrast between lawyers then and now is as startling as it is gratifying to members of that profession. As to the future of education, if we look at the plans for university expansion, involving an increase in students from 100,000 to 170,000 over ten years, and relate them to post-war experience, we see that no boy or girl who has the capacity to benefit from a university education need be denied this opportunity. The President of the Institute, MR P. F. GRANGER, F.C.A., in a recent speech at Bristol, said: 'As is known, the undergraduate population of the universities is going to expand greatly in the next ten years, and this means that we must have more and more recruits from this source.'

Is the profession going to get them? It is tempting to suggest that the Universities Scheme, whereby an undergraduate can

obtain both a university degree and a professional qualification in five and three-quarters years, is capable of expansion. But, in fact, there is no evidence that this scheme has been a success, as the Parker Committee found when they investigated it. In almost all our universities, accounting is not regarded as an honours subject. To take the scheme, therefore, means the student abandoning all hope of getting an honours degree. Now, if any student with the slightest chance of getting an honours degree considers the scheme, he is bound to decide against it. If he takes the honours course and then decides to try and become an accountant, he loses three months. If he takes the scheme, he loses his chance of an honours degree. It may be said that although the best students will not enter the scheme, it may still prove attractive to the rank and file undergraduate who does not aim for honours but is nevertheless suitable material from which to form a professional man. Unfortunately, the man who is not prepared to set his sights on an honours degree is likely to be the man who looks for an easier living than that provided by the accountancy profession.

Getting what might be described as the worst of both worlds appears to be inescapably attached to the Institute's ventures into the subject of education. The Parker Committee concluded (page 59) that the only real alternative to correspondence courses was block release, and went on to suggest (paragraph 179/46) that district societies could organize courses of three weeks' duration by way of introduction to the studies for the Institute's examinations. Thus the district societies would have all the trouble and expense involved in organizing full-time courses, under conditions which could never begin to compare with those existing in public educational institutions, and which would not qualify for any State aid whatsoever. Further, the students themselves would not be entitled to State educational grants, so that the entire cost of the venture would fall upon the students themselves and the members of the Institute. Compare this suggestion with The Law Society's policy of making public educational institutions take over as much of legal education as they can be persuaded to.

The Institute's resistance to public education must be seen in its historical perspective to be

understood. Public education came late to England and Wales, partly because of the ingrained political philosophy of *laissez-faire*, and partly due to relations between Church and State. Thus, although there was public education in Germany by the sixteenth century, and in France by the end of the eighteenth, it was not until the Education Act of 1870 that a foundation was laid for public educational institutions in England and Wales. Until the second quarter of the nineteenth century there were only two universities in England and Wales, Oxford and Cambridge. As late as 1846 there were no law students at either of these places, although each of them could boast of two law professors. At the same time, in Berlin there were fourteen professors of law teaching some hundreds of students.

The situation then has analogies to the present state of accounting instruction in English universities. There was a chair of accounting at the University of Alexandria 2,000 years ago, of equal importance to the chairs of music and astronomy. In the U.S.A., Italy, Germany, France and throughout the Commonwealth, professors of accounting are too numerous to be counted, and the subject of accounting is firmly established as a major university discipline. In 1961, however, there were only six chairs of accounting in England and Wales – at London (2), Cambridge, Birmingham, Sheffield and Bristol. Only three of these are occupied by accountants. Oxford has no professor of accounting, and the professor at Cambridge is a distinguished statistician. There are less than 200 students taking accounting under the Universities Scheme, and several hundreds more study the subject at various levels on their way towards degrees in economics, commerce and administration.

'Our general feeling is that the opportunities for any further extension of the profession's connection with the universities lie more in the field of post-graduate and post-qualification activities', stated the Parker Committee (paragraph 175). It is difficult to see how such a conclusion could have been arrived at, since post-graduate study of any subject must depend upon a solid base of undergraduate teaching and organized research. If the known desire of the accountancy bodies to attract more university graduates is to be translated into

reality (and if the future standing of the profession is to be comparable with its present status it must be), then only one course is open at this time. It is to take steps similar to those taken by The Law Society in the second half of the nineteenth century, whereby it became gradually accepted that English law was a meet subject for

university study. Of the subjects which constitute the syllabuses of the accountancy bodies' examinations, two – law and economics – are already taught at universities. It only remains for accounting to be taught there at a comparable level for the ingredients of a degree in accountancy to be complete.

A Challenge to the Profession

ADVISING SMALL AND MEDIUM-SIZED COMPANIES

CONTRIBUTED

INDUSTRY and commerce have, since the last war, undergone a considerable revolution. The whole tempo of manufacturing and distributive companies has increased on a scale unthought of before the war. The cost of labour, both direct and indirect, has increased several times its pre-war values, and Britain is competing with an ever-increasing number of home producers elsewhere. In fact, by the export of capital goods from the United Kingdom, many countries are being encouraged to set up their own industries which are competing, and will of course increasingly compete, with British exports.

In this situation it behoves British industry as never before to look to its laurels, and the accountancy profession to devote increasing attention to management accounting problems. Indeed, the remarks of Mr S. J. Pears, F.C.A., on this subject, in his address as President at the eightieth anniversary banquet of The Institute of Chartered Accountants in England and Wales last October, constitute what may be regarded as a challenge to the profession.

More Advanced Outlook

The present writer's remarks do not necessarily apply to the larger industrial firms. Many of these are well organized, having an advanced outlook, with their own organization and methods sections, and are able to afford occasional visits from consultants for special purposes and can also pay high rates to employ the best clerical staff. The larger firms, too, have punched-card systems and may have electronic computers. Even so, few of these firms could say quite honestly that there were no possible improve-

ments to be made in their clerical methods whereby they could save money or improve the efficiency of their organization.

Management Accountancy in Medium-sized Firms

It is normally not in the large industrial firms, therefore, that professional assistance with management accountancy and organization and methods is required, but in the thousands of medium and small firms with an office staff of less than, say, fifty. Many directors of these firms may feel that, having appointed a qualified person as chief accountant, he can answer all the questions raised by increasing competition and do all that is necessary towards reorganizing and keeping the accounting system up to date, including clerical methods and mechanized systems, as well as running an accounts office.

The chief accountant and/or company secretary, far from having a relatively comfortable job with a higher salary than his professional counterpart, has frequently to work all hours to provide an ever-increasing quantity of information for his directors and senior colleagues. He is served by a staff of more or less average ability (he is lucky if it is the former), and in any case there is often a considerable labour turnover, because this staff is usually predominantly female. He knows, or should know, that there must be some better way of organizing his office, but during office hours he is busy trying to cope with an increasing volume of work, the telephone, inquiries from all kinds of people, meetings, and generally patching an outworn system, which leaves him little time for constructive thinking.

This is not intended to be a plea for the over-worked industrial accountant, but it is a plea both to the profession and industry to realize that the chief accountant is often too busy to re-organize clerical procedures and initiate new systems within the minimum time possible.

Organization Methods Available

Let us at this point, therefore, examine the various methods that may be adopted to improve office efficiency and management accounting methods. Firstly, there are the vendors of accounting equipment and the aids to increased office efficiency. They are perfectly willing to survey existing systems and the reputable firms undertake that if their equipment is not applicable, they will say so, and withdraw gracefully. Of course, they want basic information, the supply of which may be devolved on to the assistant accountant or senior clerk. In due course, the chief accountant makes recommendations to his directors based not infrequently, however, on incomplete information. If he is sufficiently persuasive the equipment is purchased, with little or no attempt to get the *methods* right.

The important thing, always, is that the methods should be corrected first, *then* a survey should be made of the best equipment to do the job, preferably with the assistance of an independent specialist. Only then, having prepared a full report on costs, savings, etc., for the directors, is it the time to persuade the board to authorize the purchase.

Consultants

When management accounting information or advice is lacking and a firm runs into trouble of one sort or another, the most fashionable thing to do at present is to call in management consultants. Now it should be clearly understood that many firms of consultants do a really first-class job of work. They are expensive, some would say too expensive. They come into the firm, make a survey, which may take a month or so, and write a preliminary report. The point is, however, that unless they have been in that firm before, they have probably never heard of it until they were invited to prepare the survey. When the preliminary report is submitted, the directors consider it. They have paid away good money to get the report, and they see no way of getting the work implemented unless the consultants do it, so, 'in for a penny, in for

a pound', they authorize the implementation of the report.

The work is started by a senior employee of the firm of consultants. He interviews employees, prepares interim reports, drafts forms, and generally lays a plan—often a very good one—for the firm or the function under review. But all this takes time, and in the meantime the consultants' bill mounts. At length the assignment is completed and the plan implemented—but here is the snag: the consultant may have done a first-class job in convincing directors and staff that the plan will work; he may have trained the necessary staff to operate the plan; everyone in the office may have the time and enthusiasm to change from the old methods to the new, and the new plan may be well under way. But, however well the consultant has done his job, the old ways have a tendency to rear their ugly heads and unless there is always someone available with sufficient knowledge and authority to foster the new methods and to develop them properly, certain weaknesses are bound to occur.

Question of Expense

The consultant is too expensive to keep for the purpose of dealing with development of the functional plan. Most are quite straightforward and point this out and, indeed, during their reign they have probably tried to train someone to carry on after them. But unless they have managed to find someone almost as good as themselves, with similar authority and time to devote, the substitute will be nothing like as effective. It may be said that the chief accountant should take over from the consultant; certainly he should have the necessary authority to develop the plan, but the development work may well take more time than he has available.

Nothing remains constant in any business. A system may be developed one day, but unless its performance follows changes in the company's policy it will become out of date, unless modifications to the system are introduced. For example, in the time allowed the consultant, he may have been able to install a system of flexible budgetary control and standard costing as far as labour and overheads are concerned, but was unable to install a system of materials control. This being left either for a further visit (which never materializes) or to the chief accountant. The probable result is that the materials control side is never completed.

Consultants often maintain some continuity

by keeping in touch with the firm to see that 'all is well' but how can they, in the course of a day's visit, put right the deviations that may have occurred during the previous month?

Assistance by Professional Accountant

The method which is currently advocated is that the work may be done by the professional accountant. Often, no doubt, where he has accepted such an assignment, he has done a remarkably fine job of work, but excepting those larger firms of accountants which have a management accountancy department, how can the ordinary senior audit clerk perform such a specialized function? He would not be expected to have a full knowledge of taxation, so how can he possibly have a specialized knowledge of office methods, costing, or accounting for management? Moreover, let us face it, the auditor has in the past often been regarded as little more than a necessary evil – a part of the statutory machine – carrying out his audit and disappearing for another year, unpopular, unwanted, and unloved by everybody, pushed into any odd room to work.

Fortunately, management is now becoming more enlightened; the outlook is changing, and the change must be fostered and encouraged. The professional accountant must provide a better service to clients than merely preparing the annual accounts and agreeing the tax computations. He should, with special staff assistance, be the proper person to advise the firm on the best clerical methods to adopt. He should have the authority to visit the firm as often as he wishes to see how new methods are progressing. He very often has the background information on the directors' personalities and idiosyncrasies of senior staff; in fact, he is, or should be, the accountant equivalent of the good old-fashioned general practitioner of the medical profession. When the latter is in trouble with a difficult case he calls in the specialist who prescribes the treatment or performs the operation and then hands the patient back to the G.P. to nurse back to health.

Employing the Specialist

Something similar should apply in the profession – but, it is suggested, with a difference. The *accountant* should employ the specialist; and if his practice is not large enough to be able to afford one, then he might form a consortium

with other firms to employ a consultant accountant who has had industrial experience and is a trained specialist, with specialist staff at his disposal. Such a management accountancy service might also be available to the auditor to provide ancillary audit procedures, for instance, with regard to stock valuation, reports on accounts, etc.

Of course, the consultancy side of a professional firm should not be mixed with its audit department; a consultant accountant cannot be expected to carry out audit work one day and act as consultant the next.

Two-way Traffic

The profession has lost many of its best men to industry, and there is little or no attempt to get them back. Some of the trained industrial accountants should be encouraged to return to the profession; preferably those that have worked with progressive companies, where up-to-date methods are employed. The man to organize the advisory service should have thorough experience of installing and operating flexible budgetary control and standard costing systems as well as other costing systems, various office procedures and methods, and a thorough knowledge of mechanized accounting. In short, he should be able to provide management accounting, costing and organization and methods services for medium and smaller sized companies, and to advise clients on financial problems and how to run their companies more efficiently. Above all he should be a salesman, able to sell to clients the idea of the value of management accountancy in all its forms.

It is for the profession – the individual firms of accountants – to get down to the problem of re-organizing to provide a really efficient management accounting service to clients. In so doing, to team up with other like-minded firms to employ specialists who would provide this service to the client, at a reasonably remunerative fee. There are, of course, firms in various parts of the country that have already embarked on these lines, but the majority of small- and medium-sized firms of accountants are leaving it to the large professional and management consultant firms to provide this essential service for clients. This should be a real challenge to the profession at large. It is to be hoped that the forward thinking medium and smaller firms will react to strengthen the already useful services they perform.

Income Taxes in the Commonwealth

A COMPARATIVE STUDY

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THE charts comprising this comparative study have been drawn up to show how persons with similar incomes and responsibilities fare as regards income taxation in each different territory of the Commonwealth, compared with those in the United Kingdom – and consequently, with each other. The Republics of Ireland and South Africa have been included in the comparison, because these countries are closely associated with the Commonwealth even though they are not now parts of it.

Eighty-seven Regions

The total of eighty-seven regions dealt with also embraces the provinces of South Africa, Canada and Pakistan; the States of India; countries of the Federations of the West Indies and of the Rhodesias and Nyasaland; together with the High Commission territories in East and South Africa – all of which at present legislate for taxes, either in the absence of national levies or supplementary thereto.

Of course, the number changes from time to time. For example, Bahawalpur joined with Pakistan taxes after 1951–52; Western Samoa and the Cook Islands separated from New Zealand after 1956–57; and Sarawak introduced a salaries tax only from January 1st, 1961.

Moreover, sub-divisions are sometimes necessary where peculiar circumstances require a territory not to treat all its citizens in the same way. The different cases have to be shown separately – as in the Falkland Islands, which have privilege rates applicable to seasonal employees in the whaling and sealing industries; and in Ceylon, where there are special scales of tax for Hindu Undivided Families.

No Taxes on Income

If a part of the Commonwealth is not included in any of the charts, that territory has no income tax. Thus, no taxes on income are levied in the Bahamas or the Bermudas; Australia does not tax income in its dependencies of Papua, Norfolk Islands and New Guinea; Brunei does not tax

individuals – only companies; and (nearer to Britain) Sark has no income tax – and no social security; it gets its revenue from ground-rents and a levy of one-thirteenth on sales of land, and by requiring residents to perform public services unpaid.

All currencies have been converted into sterling, and tax liabilities calculated – to the nearest £ – for three classes of taxpayer:

- (i) single persons;
 - (ii) married men without dependent children;
 - (iii) married men with two children to support;
- each in seven different levels of income, all earned: £700, £1,000, £1,500, £2,000, £2,500, £5,000, £10,000.

Only for tax on West Pakistan land values have other incomes had to be used.

Income tax is the practical means of comprehensive comparison but, where other taxes are linked with income tax, these have had to be included in the figures. For example, social security contributions in Canada, Australia and New Zealand; and personal, education and hospital taxes in East Africa are treated as additions. On the other hand, National Insurance contributions in the United Kingdom are not added, partly because the income tax deduction given on its account varies, but mainly because the rate of contribution depends on circumstances other than total income. Similarly, vestries' trade taxes in Barbados can be listed and local rates in the United Kingdom cannot be.

Guide to the Charts

The levies which are taken into account are shown on the charts, together with an indication of how they are applied, by means of the abbreviations set out on page 692.

For readers interested in income calculated by the preparation of accounts, two further details are given:

The date on which the fiscal year ends. Four dates are in use, namely, March 31st, April 5th, June 30th, December 31st.

The basis of assessment – that is, whether the current year's tax is on the profit of that accounting year which:

is the same as the fiscal year	– shown F.Y.
ends in the year of assessment	– I.Y.
ends in the last preceding tax year	– P.Y.
ends nearest to the end of the fiscal year	– E.N.
ends within three months following the fiscal year	– F.Q.
has its greatest part in the year of assessment	– G.P.
has any part in the fiscal year	– A.P.
is agreed in individual cases	– A.G.
constitutes a fiscal year (as for profits tax in the United Kingdom)	– A.Y.

As well as to individuals, of course, these details apply to companies, and although the charts are mainly concerned with individuals, the picture of their situation is completed only by comparing them with companies as the other class of taxpayer. Therefore, there is also given:

The rate for companies where this is standard or flat, or the maximum rate where a scale is operated for companies.

Notes on particular territories are given with the charts. In addition, the following comments may be made:

Chart 1

By no means all of the countries make any distinction between earned and unearned income, charging less tax on the former. MALTA and ADEN on this chart do not.

Most countries give a wife allowance, although PAKISTAN does not. The usual method is to permit a married man to deduct from his gross income a larger amount than a single person to arrive at his taxable income. CYPRUS, however, adopts another method: the normal rates are for a married man; they are applied to a single person as well, but his (or her) liability is surcharged by one-third of the first £90 and one-half of the remainder, subject to a maximum addition of £500.

Child allowance may be used in an effort to curb either a decrease or an increase in population. On the one hand, for third and subsequent children an allowance bigger by £20 is made in GUERNSEY and a rebate of £2 10s more tax in SOUTH AFRICA, while the ISLE OF MAN and the UNITED KINGDOM give increased reliefs for older children. There is no question of limiting the number of allowances. On the other hand, ADEN reduces the allowance for children after the first by £15 unless they are being educated abroad and, like PAKISTAN, gives a maximum number of three. Moreover, in PAKISTAN the

allowance is conditional upon the child being aged 5–21 years and receiving education.

Many countries emphasize the need for education by increasing child allowance on this account. GIBRALTAR allows four times the normal amount for children being educated abroad.

A long-standing characteristic of the United Kingdom system is the deduction at the source of tax at the standard rate from interest paid. ADEN has just introduced a similar deduction at 2s in the £. This is the rate applicable to the first slice of non-residents' income (£800 at 2s, £400 at 3s). Persons resident and domiciled are charged £400 at 1s, £400 at 2s, £400 at 3s, while for Commonwealth soldiers and civil servants (resident but not domiciled), the first rate is £1,200 at 3s. Thereafter, the scales are the same.

Chart 2

Child allowance in MALAYA and SINGAPORE increases less than proportionately with the number of children – first £87, second and third £58 each, fourth and fifth £35 each. This is the maximum number in MALAYA, but the allowance is doubled if the child is being educated abroad. SINGAPORE allows for four more children at £24 each.

INDIA ceased after 1957–58 to give a fraction of earned income free of tax; relief is now allowed by means of a reduced surcharge. On earned income this is 5 per cent of the supertax on the excess of earned income over £7,500, compared with 15 per cent of supertax on unearned income.

The effect of allowances in most countries is that relief is obtained at the highest rate at which the taxpayer would otherwise have been liable. In INDIA, however, separate scales are provided for single and married persons, which differ to the extent that the allowance is given only at the lowest rate, 3 per cent. This method is followed, too, in respect of allowances to Hindu Undivided Family brothers by some of the States of INDIA which levy their own taxes on agricultural incomes – Assam, Bihar, Orissa, Rajasthan and West Bengal.

Tea estates are subjected to three-fifths of the particular State tax and two-fifths of the Federal tax.

Some of the States have for years levied small registration taxes on businesses and professions.

SINGAPORE has recently introduced such a tax on a larger scale – for companies £116 per annum, for individuals such as accountants, doctors and lawyers an initial £29 and £15 each quarter year thereafter. This seems to be following a trend in eastern countries to look for more direct taxes: contrary to that in the west where the ISLE OF MAN has abolished surtax, the UNITED KINGDOM considerably reduced it, and the IRISH REPUBLIC confined it to three rates.

Chart 3

CEYLON, too, is now seeking further revenue by imposing registration fees – on companies £75 per

System - Taxes:

P.T.	- Personal or Poll Tax.	
I.T. or N.T.	- Income tax or Normal tax on income.	
A.T.	- Additional Tax on income, or	
S.T.(A.)	- Surtax against which all I.T. allowances are given - as in Gibraltar, Fiji, Gilbert and Ellice Isles.	} alternative, on higher incomes.
S.T.	- Surtax, with other than the same allowances as for I.T. - as in the United Kingdom, Eire and Malta.	
O.A.S.	- Old Age Security tax.	} additional taxes, or contributions based on income, for specific purposes.
S.S.	- Social Security or Social Services tax	
Ed.	- Education tax.	
Hosp.	- Hospital tax.	

System - Scales:

S.R.	- Standard (or flat) Rate: levy is the same on each £ of income.
S.I.R.	- Small Income Relief: lower rates on incomes totalling not more than a small amount.
R.R.R.	- Reduced Rate Relief: lower rates on slices of income before S.R. is applied to the remainder.
Steps	- a series of ranges with an equal tax for all incomes within one range.
Slice	- a scale fixing a higher rate on the excess income over each amount allowed at a lower rate.
Grad(uated)	- a scale on which the last £ of income, falling in one of a series of ranges, fixes the rate for the whole amount.
Grad per £	- as for Fiji's tax: the rate is 1s 3d on an income of £1, and increases by 0.012 penny for each additional £ to a maximum of 6s 3d if the income totals over £5,000. The rate so fixed is charged on the whole amount.

System - Adjustment:

Discounts and surcharges are invariably flat percentages.

Abatements may be percentages or a fixed amount of tax.

The highest rate of the tax, or several taxes together, applied to individuals is added. A comparison of this figure with the amounts of tax liability in each country will reveal whether or not the maximum is reached early. In Cyprus, for example, the difference between the liability of the person with £5,000 income and that of one with £10,000 reveals that the maximum rate of 15s in the £ must apply to about four-fifths of the extra income: that is, from £6,000.

The allowances given to an individual, of course, temper the rates of tax, but only those most commonly applied can be shown. These are:

- (i) to a single person, or to a married man in respect of himself.
- (ii) the addition for a wife - where this may be decreased on account of the wife's income, it is marked (—).
- (iii) the addition for the first child - marked (+) where it is increased as the child gets older or if the child is being educated abroad.
- marked (—) where the allowance is less for subsequent children.
- (iv) earned income allowance - the lesser of the fraction or the maximum which may be deducted from earned income. For example: $\frac{1}{4}$ - 300.
- (v) Wife's earned income allowance - the lesser of the fraction or maximum deductible in assessing the wife's earned income on the taxpayer.

The first four have been taken into account in the calculations. The fifth may be regarded as an extension of the wife allowance which - being frequent in Britain - helps to complete comparison.

annum; on professions and on visitors for more than three months, £30 per annum.

There are proposals in CEYLON to aid development - by a special 4 per cent tax on gross incomes over £270 and a 100 per cent surtax on the part of income over £2,775 of single persons, £3,000 of married men, and £4,050 of families with two children. In return for the latter, taxpayers will receive one-half the value

in 5 per cent Development Bonds, interest on which is free of tax but which can be encashed only for approved purposes.

To assess tax, WESTERN SAMOA, FIJI and GILBERT AND ELLICE ISLES have scales previously described as 'Graduated per £'. In NEW ZEALAND non-assessable income is aggregated with that which is taxable in order to fix the rate applicable to the latter.

By provisions similar to those for dependent relative allowance in BRITAIN, wife allowance is reduced in AUSTRALIA by £2 for every £1 of her income over £50, and in NEW ZEALAND by the amount by which her income exceeds £113.

Child allowances in AUSTRALIA are reduced by £23 after the first, except for students. Maximum allowances are common—in WESTERN SAMOA (6); in NORTH BORNEO (4), HONG KONG (9) and SARAWAK (5), where reliefs also diminish; and in FIJI and GILBERT AND ELLICE ISLES, although there single increases within the total limit are granted for school fees.

An allowance is given in the SOLOMON ISLANDS for the cost of travelling, when a child up to 25 years old is being educated abroad. This is in addition to the increase in the education allowance from £25 to £200, of which the maximum number is four. Persons resident but not domiciled may also claim if they travel for health or recreation.

SARAWAK limits allowances of all kinds to the single person's amount plus one-third of the total income. The tax liability is also limited to 5 per cent of the gross income, and this limits the benefit of expenses deduction.

Chart 4

Single person, wife, and child allowances are effected by rebates in SOUTH AFRICA, SOUTH-WEST AFRICA, the South African HIGH COMMISSION TERRITORIES, and the FEDERATION OF THE RHODESIAS AND NYASALAND. This means that a specified amount of tax relief is given, which does not depend on the rate at which the individual was liable, as it does under the more common system of permitting an amount of income to be free of tax. SOUTH AFRICA employs one slice scale to calculate the basic tax for a married man. From this £31 rebate is given for himself and his wife, and a further £34 if he has two children. The resulting liability is then discounted by 5 per cent. The basic tax for a single person is calculated according to a slice scale of higher rates, before the rebate of £23 and discount is taken into account. So the wife allowance is £8 plus the benefit of reduced rates. The other territories in this group have, in addition, surtax against which a rebate is given much larger than those for income tax. A married man is given more than a single person for this only in the RHODESIAS AND NYASALAND, but these rebates are intended for another purpose—to have the same effect as exempting not-so-large incomes from surtax.

The Rhodesias Federation has a reduced rate of 5s 5d for private company profits up to £25,000, but there is an undistributed profits tax—2s 9d on first £2,000; 5s on remainder.

SOUTH-WEST AFRICA and the HIGH COMMISSION TERRITORIES use 'Graduated-per-£' scales (as in FIJI) for income tax and surtax, and both are surcharged in the latter case.

Chart 5

ZANZIBAR and EAST AFRICA have graduated personal taxes in addition to income tax, similar to the provinces of SOUTH AFRICA. Africans subject to poll taxes are exempt. To these personal taxes are added non-African education tax and hospital contributions, to which Europeans pay different amounts from Arabs and Asians.

Minimum amounts of tax are due on incomes in SIERRA LEONE and GHANA. Example: in GHANA a minimum of £6 tax is payable by a person with an income of over £600, regardless of his allowances.

Chart 6

CANADA reduces the wife allowance when she can contribute £89 to her own maintenance, but the full amount is equal to the husband's allowance for himself. This is more generous than in most countries. Others which grant equal amounts are the CHANNEL ISLANDS, HONG KONG, WESTERN SAMOA, TONGA, GILBERT AND ELLICE ISLES, the FALKLAND ISLANDS, and three of the WEST INDIES. INDIA, NORTH BORNEO, FIJI, ZANZIBAR and EAST AFRICA give more for a wife than for a single allowance; and there are such unusual arrangements as the following: CYPRUS, already mentioned (Chart 1); AUSTRALIA where the single allowance is nil; and ST HELENA WITH ASCENSION ISLE, where the allowance is a rebate of one-third of the tax liability.

Child allowance in CANADA is doubled to £178 when the child does not qualify for family allowances; earned income relief is effected by a 4 per cent surtax on investment income; and an interesting allowance is the standard deduction of £35 for medical, charitable and professional subscriptions.

Following the 'western' trend mentioned in Chart 2, CANADA in 1962 will reduce tax on individuals by 16 per cent, and the company rates will be 12 per cent and 41 per cent.

Chart 7

The central administration of the FEDERATION OF THE WEST INDIES levies tax only on its own employees, and the member territories retain sole jurisdiction over their residents. The reductions for subsequent children and the overall limits to child allowances, which are such a feature in Africa and elsewhere, are absent here. But additions for education are given almost everywhere in substantial amounts. The Federal Authority allows up to £200 for a child over 10 years of age who is undergoing higher education away from home; TRINIDAD allows this too, and increases it to £250 if the child is abroad; ST LUCIA gives six times the normal allowance of £25 in respect of a child aged 16-25 years being educated abroad; and BRITISH HONDURAS increases the allowance by 75 per cent for post-primary education, or 400 per cent if such education is away from home.

	United Kingdom	Isle of Man	Channel Islands		Irish Republic	Gibraltar	Malta	Cyprus	Aden	Pakistan	Pakistan Provinces		
			Jersey	Guernsey, Alderney and Herm							East Pakistan	West Pakistan	
												Punjab	NW. Frontier and Bahawalpur
Fiscal year ends ..	April 5 PY 7/9	April 5 PY 4/6	Dec. 31 PY 4/-	Dec. 31 PY 4/-	April 5 PY 6/4	Mar. 31 PY 3/-	Dec. 31 PY 5/-+	Dec. 31 PY 8/6	Mar. 31 PY 6/6	Mar. 31 PY 13/-	Mar. 31 PY 8/9	Mar. 31 PY —	Mar. 31 PY —
Basis-A/cs ending in Rate for companies ..													
Allowances:													
Single ..	140	200	200	140	234+	400	240	300	350	150	—	—	—
Wife ..	160	150	200	140	160	150	180	*	150	—	—	—	—
Child ..	100+	100+	150	80+	120	75+	80	50+	75-	15*	—	—	—
Earned ..	$\frac{8}{10}$ of 4,005	$\frac{1}{2}$ of 1,200	$\frac{1}{2}$ of 500	$\frac{1}{2}$ of 500	$\frac{1}{2}$ of 500	$\frac{1}{2}$ of 300	—	$\frac{1}{2}$ —	—	£-300	—	—	—
[Fraction-max.] ..	$\frac{1}{10}$ of 5,940	$\frac{1}{2}$ of 800	$\frac{1}{2}$ of 1,000	$\frac{1}{2}$ of 1,000	$\frac{1}{2}$ of 500	RRR. S.R. 4/-	RRR. S.R. 11/6	upto 100 I.T. Slice 15/-	I.T. Slice 15/-	I.T. Sliced A.T. Steps S.T. (Firms) 16/-	I.T. Sliced S.T. scales	Fraction or Multiple of Economic Rent: and Additional Steps	—
System: Taxes ..	RRR. S.R. 17/9	RRR. S.R. 4/6	RRR. S.R. 4/-	RRR. S.R. 4/-	S.R. 13/10	RRR. S.T.(A) Slice 4/-	RRR. S.T. Slice 11/6	—	—	—	—	—	—
Scale Type ..													
Adjustment ..													
Highest rate ..													
EARNED INCOME:													
£	101	39	40	53	92	4	59	36	18	36	57	17	30
Single	67	20	13	21	41	—	32	27	10	36	—	—	17
Married	15	—	—	1	—	—	12	17	3	32	—	—	—
2 Children													
•													
Single	192	75	85	98	163	10	124	72	45	83	118	43	52
Married	153	51	45	66	113	6	83	54	30	83	—	—	43
Children	77	23	5	26	36	2	53	44	13	77	—	—	—
Single	342	155	160	178	282	27	272	159	113	179	163	82	75
Married	303	122	120	146	231	20	214	116	90	179	—	—	82
Children	226	83	60	106	155	12	162	101	68	171	—	—	—
Single	493	245	255	268	401	55	435	328	203	348	334	915	300
Married	454	212	215	236	350	45	376	229	170	348	—	—	615
Children	377	167	155	196	274	38	324	199	140	338	—	—	—
Single	644	358	355	368	559	105	597	587	335	523	561	2,015	500
Married	605	324	315	336	508	90	539	401	290	523	—	—	1,515
Children	527	279	255	296	432	75	487	356	253	513	—	—	—
Single	1,440	920	855	868	1,667	835	1,885	2,163	1,308	2,030	1,971	4,875	800
Married	1,401	886	815	836	1,577	805	1,826	1,663	1,240	2,030	—	—	4,075
Children	1,324	841	755	796	1,457	775	1,774	1,598	1,173	2,008	—	—	—
Single	4,098	2,045	1,855	1,868	4,784	2,335	4,759	5,439	3,905	6,009	5,815	8,475	1,200
Married	4,027	2,011	1,815	1,836	4,673	2,305	4,701	4,939	3,815	6,009	—	—	6,075
Children	3,885	1,966	1,755	1,796	4,507	2,275	4,649	4,861	3,725	5,985	—	—	—

UNITED KINGDOM No single person allowances or earned income allowances for surtax. Allowances for child and over 11 years £125; over 16 years £150. Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

ISLE OF MAN Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

GUERNSEY Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

IRISH REPUBLIC Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

MALTA Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

ADEN Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

CYPRUS Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

PAKISTAN Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

WEST PAKISTAN Allowances for child aged over 11 years £125; over 16 years £150. Allowances for third and subsequent children £100 each. Personal allowance for widow or widower £259. Same reductions (except E.I.R.) for S.T. as for single persons.

	India	Bihar	Kerala	Madhya Pradesh and Bhopal	Malabar	Mysores	Orissa	Punjab	Rajasthan	Pradesh and Vindhya Pradesh	West Bengal and Tripura	Malaya	Singapore
	Fiscal year ends .. Basis-A/cs ending in Rate for companies	Few PY	Mar. 31 PY 62% Max.	Jan. 30 Def. PY P.M.Y. 64% Max.	Mar. 31 PY 9/-	Mar. 31 PY 150	Mar. 31 PY	Mar. 31 PY	Mar. 31 PY 31%	June 30 PY	Mar. 31 PY 8/-	Dec. 31 PY 8/-	Dec. 31 PY
Allowances:													
Single ..	75	113	113	113	270	113	225	450	113	135	113	233	233
Wife ..	150	—	—	—	—	—	—	—	—	—	—	117	117
Child ..	22	—	—	—	—	—	—	—	—	—	—	87	87
Earned [Fraction-max.]	×	—	—	—	—	150	—	—	—	Land Holding Tax	—	—	—
Wife's earned [Fraction-max.]	—	—	—	—	—	—	—	—	—	—	—	—	—
System: Taxes ..	Normal and Super Slice Scales both	Normal and Super Slice Scales	Normal and Super Slice Scales	Normal and Super Slice Scales	Slice Scale	Slice Scale	Slice Scale	Steps	Normal and Super Slice Scales	Slice Scale	Slice Scale	Slice Scale	Slice Scale
Scale Types Adjustment	Surcharged 81%	58%	66%	58%	9/-	8/-	78%	ON EARNINGS	12/-	12/-	5/-	8/-	11/-
Highest rate ..													
EARNED INCOME:													
£ 700 Single Married Children	34 30 28	49	49	47	55	23	14	11	40	35	39	32 22 12	30 20 10
1,000 Single Married Children	70 65 64	94	99	75	112	44	40	11	67	122	73	59 48 35	63 49 34
1,500 Single Married Children	158 153 152	197	216	157	231	91	111	15	149	247	149	120 103 86	140 119 98
2,000 Single Married Children	329 324 323	330	356	267	400	162	230	19	260	447	274	196 209 156	231 209 183
2,500 Single Married Children	552 547 546	485	543	423	625	252	392	19	415	697	399	286 265 238	356 327 291
5,000 Single Married Children	2,035 2,030 2,029	1,426	1,594	1,861	1,750	840	1,707	19	1,348	2,197	1,024	898 858 815	1,142 1,095 1,037
10,000 Single Married Children	5,829 5,823 5,822	3,638	4,618	5,443	4,000	2,446	4,813	19	3,881	4,865	2,274	3,042 2,989 2,924	3,339 3,286 3,221

TEA ESTATES are subject to 40% Federal Income Tax, 60% State Agricultural Tax. Married and child reverts at lowest rate (3%) only. Earned Income Relief. Additional surcharge of 15% of tax on unearned income; and only 3% of tax on earned income exceeding £7,500. First rates of scale reduced for Hindu Undivided Family brothers. Fiscal year varies with district. Exemption limit (£225) doubled for Alijauathana Families and Marumakkathayam Turwads. Fiscal year defined by Land Revenue Act 1932. Basis—Income for year to 31st March 1934.

INDIA

ASSAM and BIHAR

BIHAR

KERALA

BHOPAL

ORISSA: Maximum tax is one-half of excess over exemption figure, £275. ORISSA, RAJASTHAN, WEST BENGAL: First rates of scale reduced for Hindu Undivided Family brothers. Maximum tax is one-half excess over exemption amount, £270. Child Allowances: 2nd and 3rd, £58 each; 4th and 5th, £55; subsequent, £24. Maximum: 5 Malaya; 9 Singapore. In Malaya, allowance doubled if child is being educated abroad. Registration of accountants, doctors and lawyers—Initial £25 and £15 each quarter year.

	Non-residents	Residents	Hindu Undivided Families	North Borneo	Hong Kong, Kowloon, etc.	Sarawak	Brunei	Western Samoa	Cook Isles	Fiji	Tonga	Gilbert and Ellice Islands and Solomon Islands	New Zealand	Australia
Fiscal year ends .. Basis-A/cs ending in Rate for companies		Dec. 31 PY 39%		Dec. 31* PY 8/-	Mar. 31 PY 2/6	Dec. 31 PY 6/-	Dec. 31 PY 6/-	Dec. 31 EN 8/-	Mar. 31 PY 5/-	Dec. 31 GP 6/3	Dec. 31 IV 5/-	Dec. 31 PY 1/6	Mar. 31 EN 8/6-	June 30 PY or AY 7/6-
Allowances:														
Single ..	—	225	—	280	438	350	Tax on Companies only	200	300	180	120	240+	338	—
Wife ..	—	75	—	350	437	280	—	200-	150	225	120	240	162-	114
Child ..	—	38-	—	70-	125-	70-	—	75	50	45+	40	40+	75	73-
Earned	£-75	£-300	—	—	—	—	Rate 4/- on certain Interest Paid to Non-resident Companies	—	—	—	—	—	—	—
[Fraction-max.] Wife's earned	—	—	—	—	—	—	—	—	—	—	—	—	—	—
[Fraction-max.] System: Taxes Scale Type Adjustment	I.T. Slice	I.T. Slice	I.T. Slice	I.T. Slice	I.T. Slice	Salary Tax Slice	—	I.T. Grad. per £	I.T. Slice	I.T. Grad. per £ S.T.(A) Slice	I.T. Slice	I.T. Grad. per £ S.T.(A) Slice	I.T. Slice S.S.-Flat 13/6*	I.T. & S.S. Slice Rebate 5% 12/8
Highest rate ..	17/- +	12/- Surcharge 15%	86%	4/-	5/-	6/-	—	8/-	8/-	16/3	7/6	15/9	—	—
EARNED INCOME:														
£ 700 Single	144	38	209	15	7	14	—	35	14	48	17	30	101	63
Married	—	25	—	2	—	5	—	19	8	23	11	11	81	45
2 Children	—	6	—	—	—	5	—	8	4	15	8	6	59	28
1,000 Single	212	100	299	25	14	27	—	67	31	89	40	65	178	124
Married	—	79	—	13	3	15	—	45	22	53	28	36	154	99
Children	—	41	—	10	—	13	—	31	16	35	23	29	127	74
1,500 Single	328	270	448	43	59	52	—	135	71	206	125	146	329	236
Married	—	233	—	30	23	38	—	105	58	147	95	103	298	222
Children	—	166	—	26	11	31	—	85	49	104	78	90	263	187
2,000 Single	465	557	626	65	117	82	—	224	128	355	250	270	509	423
Married	—	511	—	48	66	65	—	187	110	284	220	201	471	382
Children	—	414	—	44	42	56	—	160	99	237	200	184	427	340
2,500 Single	644	897	805	90	197	116	—	335	199	532	423	445	735	612
Married	—	865	—	73	127	96	—	289	176	449	378	357	685	567
Children	—	742	—	67	94	86	—	256	162	385	348	339	628	519
5,000 Single	1,995	2,700	2,012	311	789	250	—	1,200	793	1,903	1,985	1,761	2,278	1,821
Married	—	2,571	—	276	680	250	—	1,112	747	1,790	1,940	1,647	2,203	1,758
Children	—	2,467	—	264	617	250	—	1,048	716	1,684	1,910	1,609	2,113	1,691
10,000 Single	6,157	6,062	5,462	1,176	2,039	500	—	3,920	2,778	4,463	3,860	4,246	5,653	5,314
Married	—	6,020	—	1,105	1,930	500	—	3,840	2,718	4,359	3,815	4,117	5,578	5,246
Children	—	5,917	—	1,083	1,867	500	—	3,780	2,678	4,225	3,785	4,074	5,488	5,170

Rate of income tax is fixed individually at 1.3/1 plus 12/1,000 (per £ of income (max. 6.3/4)). Secondary tax is an alternative to income tax. Child Allowance - An addition up to £115 may be claimed for school fees. Maximum child allowance, £200. Allowance for widows with dependent, £440. Additional child allowance for education, £20; (if abroad, £80). Maximum child allowance, £100. The tax rebate of 10% to a maximum of £40 to individuals is adjusted for. Rate for companies, 21/6 rising per £ to 8/6 maximum. Wife allowance reduced £1 for every £1 of her income over £115. Individual's assessable income is aggregated with non-assessable to tax rate of tax.

*Figures include Social Security Tax 1.6d in £, on assessable income without allowances.

Fiji
GILBERT & ELLICE ISLANDS
NEW ZEALAND

Allowances given to individuals only, not to families. Tax rates one-half on agricultural profits. Visitors for over three months - £30 per annum. Registration of companies (£75 per annum) with £1,350 turnover. *Fiscal year ending June 30th may be taken for individuals. Rate for companies is 4/- until profit is distributed. Child Allowance reduced - 2nd, £47; 3rd, £34; 4th, £23 (doubled if child is educated abroad). Child Allowances, reduced - 3rd and 4th, £62 each; others £12. Maximum allowance, £39.9 (nine children). Taxes on property, profits and interest at rate 2.1/1. Maximum tax - £350 plus 1/3rd gross income. Maximum tax - 5% of gross income. Child Allowances - 1st, 2nd and 3rd, £70 each; 4th, £35; 5th, £23 (single).

CEYLON
NORTH BORNEO
HONG KONG
SARAWAK

	Union Taxes	Cape of Good Hope	Natal	Orange Free State	Transvaal	South West Africa	Basuto-land	Bechuana-land	Swazi-land	Federal Taxes	N. Rhodesia S. Rhodesia Nyasaland • Provincial Taxes	Mauritius	Seychelles
		Additional	Provincial	Free State	Incial Taxes								
Fiscal year ends .. Basis-A/cs ending in Rate for companies Alliances:	June 30 AG 6/- Rebates: 23- 8+ R.R.R. 17+	P.P.R.	P.P.R.	P.P.R.	P.P.R.	June 30 AG 4/6* Rebates: 50 12+ R.R.R. 20	June 30 AG 7/6* Rebates: 23 8+ R.R.R. 15+	6/-*	5/6*	Mar. 31 AP 6/8 Rebates: 25 12-5+ R.R.R. 22-5	1/3	June 30 PY 8/- 188 150 113 60- 37- { 188 225 }	Dec. 31 PY 7/- 150 113 37- 113
Single ..	—	—	—	—	—	—	—	—	—	—	—	—	—
Wife ..	—	—	—	—	—	—	—	—	—	—	—	—	—
Child ..	—	—	—	—	—	—	—	—	—	—	—	—	—
Earned ..	—	—	—	—	—	—	—	—	—	—	—	—	—
Wife's earned ..	—	—	—	—	—	—	—	—	—	—	—	—	—
/Fraction-max.] System: Taxes Scale Type	I.T. Slice	P.T.-Graduated - Low maximum I.T. - Flat Percentage of Union Tax	P.T.-Graduated - Low maximum I.T. - Flat Percentage of Union Tax	P.T.-Graduated - Low maximum I.T. - Flat Percentage of Union Tax	P.T.-Graduated - Low maximum I.T. - Flat Percentage of Union Tax	I.T. [Rebate £315] Grad. per £ 10/9	I.T. [Rebate £285] Both Surcharged 12/6	— Grad. d. per £ — " "	— " "	I.T. [Rebate Slice 9/6 S. £75; M. £246]	Flat Percentage 20%	I.T. Slice	I.T. Slice
Adjustment Highest rate ..	Discount 9/6	30% + 15	30% + 13	26% + £10	30% + £13							14/-	12/-
ALL EARNED INCOME													
£ 700 Single 2 Children	34 16 —	23 12 7	18 12 7	18 10 6	20 14 9	5 — —	46 20 —	— — —	— — —	26 — —	5 — —	34 19 8	32 18 15
•• Single 1,000 Married Children	59 40 7	33 22 12	30 20 10	25 17 8	33 21 11	29 5 —	81 48 8	— — —	— — —	56 13 —	11 3 —	68 45 31	66 49 40
Single 1,500 Married Children	105 78 45	47 33 24	44 31 21	37 26 18	47 32 23	72 41 1	143 97 58	— — —	— — —	131 63 18	26 13 4	139 109 58	193 159 140
Single 2,000 Married Children	157 120 87	62 46 36	60 44 34	50 37 29	62 45 35	117 80 40	208 149 109	— — —	— — —	244 138 93	49 28 19	251 206 172	366 333 314
Single 2,500 Married Children	224 176 143	82 63 53	80 61 51	67 52 43	82 62 52	164 120 80	448 361 321	433 361 321	433 361 321	419 250 205	84 50 41	443 381 336	567 533 514
Single 5,000 Married Children	973 903 870	307 281 271	305 279 269	262 241 232	307 280 270	875 800 760	1,469 1,300 1,260	1,431 1,300 1,260	1,431 1,300 1,260	1,270 1,086 941	269 221 212	1,192 1,087 1,006	1,914 1,880 1,861
Single 10,000 Married Children	3,120 2,993 2,960	951 908 898	949 906 896	821 784 766	951 907 897	2,842 2,706 2,666	4,286 3,893 3,853	4,184 3,893 3,853	4,184 3,893 3,853	3,632 3,311 3,266	739 686 677	4,692 4,587 4,506	4,914 4,880 4,861

SOUTH AFRICA

SOUTH AFRICAN PROVINCES

NATAL

SOUTH WEST AFRICA

BASUTOLAND

R.R.R. - Scale of reduced rates for married men.
+ Child allowance: £17 for each of first two; £19 10s. for others.
- P.R.R. - Reduced rates of personal tax for married men.
- P - Child allowance against personal tax.
- R.R.R. - Reduced rates of I.T. for married men. - 3d in £ overall.
*Companies rate on first £4,000 is 6s.
R.R.R. Reduced rates for married men. - I.T. [3d in £ overall];
I.T. Surcharge, 2/9ths; and S.T. surcharge, 1/9th.

BECHUANALAND

SWAZILAND

RHODESIA & NYASALAND

MAURITIUS

SEYCHELLES

*Private companies rate on first £2,500 is 4s.
R.R.R. Same as for Basutoland.
*Other rates for mining and private companies.
R.R.R. Reduced rate for married men. - I.T. [3d in £ overall] and I.T. surcharge 2/9ths only.
R.R.R. - Scale of reduced rates for married men.
- Basic allowances: 1st child, £60; 2nd, £53; 3rd, £45; others £37.
If abroad, £75.
- Limit to all child allowances, £187.

	EAST AFRICA					Somaliland	St Helena and Ascension Isles	
	Gambia	Sierra Leone	Ghana	Nigeria	Zanzibar	Uganda	Tanganyika	Kenya
Fiscal year ends ..	Dec. 31	Mar. 31	Mar. 31	Mar. 31	Dec. 31			
Basis-A/cs ending in ..	PY 9/-	PY 9/-	PY 8/-	PY 8/-	FQ 5/6			
Rate for companies ..	200	200	350	200	225+	(Income -500):	Max. 700	
Single ..	150	100	150	40+	275+ ¹ / ₂			
Wife ..	50+	25+	50+		120-			
Child ..								
Earned ..								
[Fraction-max.]								
Wife's earned ..	-150	-500	-150					
[Up to max.]								
System: Taxes ..	I.T. Slice	I.T. Slice	I.T. Slice	S.I.R. I.T. Slice	I.T. Slice	I.T. Slice	I.T. Slice	I.T. Slice
Scale Type ..	15/-	15/-	14/-	15/-	15/-	15/-+	15/-+	15/-+
Adjustment ..								
Highest rate ..								
ALL EARNED INCOME:								
£ Single ..	15	13	10	30	51	62	75	61
700 Married ..	9	10	6*	17	16	27	40	26
2 Children	6	10*	6*	13		11	24	10
Single ..	30	30	25	68	96	107	120	110
1,000 Married ..	23	25	18	38	40	51	64	54
Children	18	23	15	32	22	33	46	36
Single ..	105	105	76	165	199	209	223	216
1,500 Married ..	74	80	58	120	100	111	124	118
Children	61	74	51	102	73	84	97	91
Single ..	230	230	165	278	333	343	357	354
2,000 Married ..	193	205	135	233	205	216	229	226
Children	168	93	125	215	164	175	188	185
Single ..	355	418	273	428	496	507	520	521
2,500 Married ..	318	380	235	368	340	351	364	365
Children	298	361	225	344	286	297	310	311
Single ..	1,605	1,630	1,135	1,403	1,613	1,623	1,637	1,645
5,000 Married ..	1,530	1,580	1,060	1,313	1,375	1,386	1,399	1,407
Children	1,480	1,555	1,035	1,277	1,285	1,296	1,309	1,317
Single ..	4,105	4,130	3,909	4,215	4,806	4,817	4,830	4,839
10,000 Married ..	4,030	4,080	3,823	4,103	4,450	4,461	4,474	4,483
Children	3,980	4,055	3,794	4,058	4,315	4,326	4,339	4,348
								Traders' Tax Slice 5/-
								Dec. 31 PY 1/6 300 £ Tax - - - - - R.R. S.R. Abate 1/9
								Mar. 31 FY 5/- 250 - - - - - 23 15 15
								88 163 68 99 137 324 699
								26 26 45 66 91 216 466
								26 26 45 66 91 216 466

I.T. is the same in all four territories.
 - Allowance: first child £120; each of next three, £60. For further education up to 18 years, £125; over 18 years, £175.
 P.T. - Personal or Poll Tax - paid (when over 18 years old) by:
 In Kenya persons, except women with low incomes or married.
 In Tanganyika males, except students.
 Ed - Non-African Education tax - Paid by persons liable to personal tax.
 H - Hospital contribution different for Arab and Arab converts.

ZANZIBAR
 UGANDA
 TANGANYIKA
 KENYA

+For child educated abroad, up to £200. Limit to all child allowances, £750.
 +For child educated abroad, £50. Limit to all child allowances, £400.
 *Minimum tax, without allowances
 +Further education: £150. Maximum child allowances, five.
 *Minimum tax: £6 on income over £600.

GAMBIA
 SIERRA LEONE
 GHANA
 NIGERIA

+Further education, £160. Maximum allowances, £840.
 +Further education, £150 taxed at reduced rates. Otherwise, minimum tax is 4% in £.
 S.I.R. - Income tax is 4% in £.

[illegible]

	Federal Employees	Jamaica	Trinidad and Tobago	St Christopher and Nevis and Anguilla	Montserrat	Antigua	Dominica	St Lucia	St Vincent	Barbados	Grenada	Virgin Islands	British Guiana	British Honduras
Taxical year ends .. Basis-A/cs ending in Rates for companies Single .. Wife .. Child .. Earned .. [Fraction-max.] Wife's earned [Up to max.] System: Taxes Scale Type Adjustment Highest rate .. ALL EARNED INCOME	Dec. 31 PY 8/-*	Dec. 31 PY 8/-*	Dec. 31 PY 8/-*	Dec. 31 PY 8/-	Dec. 31 PY 6/8	Dec. 31 PY 8/-	Dec. 31 PY 6/-	Dec. 31 PY 6/8	Dec. 31 PY 7/6	Dec. 31 PY 8/-	Dec. 31 PY 7/6	Dec. 31 PY 7/10½	Dec. 31 PY 9/-*	Dec. 31 PY 8/-
250	300	250	100	100	100	104	100	100	100	167	125	143	187	150
100	130	100	100	100	100	104	50	50	62	125	104	86	146	75
50+	60+	50+	60+	60+	60+	62+	25	25+	41	56+	52	57+	52+	50+
-	-	-	10-100	10-100	10-100	10-104	10-100	10-100	10-100	-	-	10-143	-	10-125
-50	-200	-50	I.T. Slice	I.T. Slice	I.T. Slice	I.T. Slice	S.I.R. I.T.-Slice	I.T. Slice	I.T. Slice	-62	-21	I.T. Slice	I.T. Slice	I.T.-Slice S.T.-Slice
18/-	15/-	18/-	15/-	15/-	15/-	13/-	10/-	13/-	13/-	15/-	13/-	13/6	12/-	14/-
33	44	33	42	42	42	41	42	42	34	49	46	27	47	36
24	26	23	29	29	29	28	35	35	27	29	33	19	29	28
16	13	15	16	16	16	15	29	29	19	18	23	11	17	20
77	105	77	92	93	93	92	95	95	78	109	95	60	90	82
59	76	59	72	73	73	71	84	84	65	82	75	48	65	70
45	53	45	49	50	50	47	73	73	51	59	58	34	53	57
202	263	225	237	238	238	235	265	252	243	272	233	150	220	188
174	214	197	202	203	203	199	245	235	220	225	202	129	263	294
146	174	169	162	163	163	153	225	217	188	186	171	106	150	169
367	450	389	442	443	443	439	485	447	456	489	403	289	427	313
332	402	354	397	398	398	392	463	427	429	426	366	259	263	294
297	357	319	343	344	344	336	440	407	393	377	328	225	321	269
550	644	573	682	683	683	679	710	662	742	739	609	502	683	493
510	595	533	632	633	633	627	688	640	711	676	564	447	604	470
472	550	494	572	573	573	565	665	617	672	620	518	396	552	444
1,758	1,882	1,781	2,357	2,358	2,358	1,843	1,930	1,757	2,353	2,331	2,102	2,189	2,183	1,690
1,693	1,833	1,716	2,282	2,283	2,283	1,776	1,905	1,727	2,313	2,253	2,035	2,131	2,095	1,660
1,652	1,788	1,654	2,192	2,193	2,193	1,695	1,880	1,697	2,259	2,174	1,967	2,044	2,033	1,641
5,400	5,670	5,423	6,107	6,108	6,108	5,093	4,430	4,997	5,603	6,072	5,352	5,564	5,183	5,120
5,325	5,621	5,348	6,032	6,033	6,033	5,026	4,405	4,965	5,563	5,978	5,285	5,506	5,095	5,086
5,250	5,576	5,273	5,942	5,943	5,943	4,945	4,380	4,952	5,509	5,894	5,217	5,419	5,033	5,041

WEST INDIES

JAMAICA

TRINIDAD & TOBAGO

ST CHRISTOPHER, etc.

MONTserrat

ANTIGUA

DOMINICA

Weekly Notes

Stamp on Liquidator's Conveyance

IT has been recognized for many years that where a liquidator conveys the company's property *in specie* to the contributories as such, the conveyance is neither a conveyance on sale nor a voluntary disposition, and therefore needs bear only a 10s stamp. Suppose the shareholders in X. Ltd agree to sell all their shares to Y. Ltd. on terms that X. Ltd shall be wound up and that Y. Ltd will irrevocably authorize the liquidator to convey some of its property to the vendors of the shares, the price payable for the shares being correspondingly reduced. The liquidator then conveys the remainder of X. Ltd's property to the contributory, Y. Ltd. Is that conveyance a conveyance 'on sale' to Y. Ltd, so as to attract *ad valorem* stamp duty? Mr Justice Buckley held that it was not a conveyance 'on sale', and was sufficiently stamped with a 10s stamp (*Henty & Constable (Brewers) Ltd v. C.I.R.* (40 A.T.C. 63)). On November 16th the Court of Appeal unanimously affirmed this decision and rejected the Crown's application for leave to appeal to the House of Lords.

The Crown was apparently moved to claim duty in this case by reason of the fact that no transfers of the shares themselves were in fact ever stamped, so that the property went from X. Ltd to Y. Ltd without any *ad valorem* duty being paid. The Crown asked the Court to say that the 'substance' of the transaction was a sale of property to Y. Ltd. However, the Courts have held that the only sale was a sale of shares; there was no sale of the property of X. Ltd. There being no sale, the conveyance of it was not a conveyance 'on sale'. The Crown did not argue that it was a voluntary disposition.

Finance in the Common Market

A VAST amount has been written about the effect of the Common Market on its member countries and the United Kingdom but little has been said about the capital market within the European Economic Community. There have been references to the terms of reference and scope of the financial institutions created by the E.E.C. but only time and experience can put flesh on these supra-national frameworks. A short but informative account of the problem of financing industry in the Common Market is published in the autumn issue of *Moorgate and Wall Street*, a review by Philip Hill, Higginson, Erlangers Ltd, and Harriman Ripley & Co Inc.

In an article 'Financing industry in the Common Market', Mr Raymon L. Larcier deals with the organization of the Community's capital market. He points out that the main source of finance for

European industry since 1945 has been retained earnings, and that Government institutions have played an important part in helping finance industry. He then goes on to discuss the key role played by the banks and the new trends in industrial finance since the European Common Market was established. He points out that efforts to liberalize capital movements within the Common Market have met with some success but that intercourse between various European markets is retarded because of differences in monetary policy. Reference is made to the growing use of non-voting shares as a means of permitting the public to share in the equity of a business without sharing control.

He also deals with the modest increase there has been in the market for portfolio investments among member countries and finally deals with the impact on the capital structure of the Common Market of the Swiss capital market, New York and London. Having given due weight to the flexibility, the high professional standing and the specialized knowledge available in the London capital market, he thinks that few Continental concerns will come to London for capital for a long time because they will only slowly lose their traditional habits in seeking finance. It is more likely, he thinks, that United Kingdom companies will go to the Continent for capital. In the long run, however, he believes that a high rate of industrial expansion on the Continent must be supported by a more flexible, organized and disciplined capital market.

Railways' Operating Deficit

THE Government's plans for writing off the large operating deficit of the railways were discussed by the Minister of Transport in moving the second reading of the Transport Bill on Monday. He said that three clear principles ran throughout the Bill. These were that each of the Commission's main activities should be under separate authority, each of these to have a separate financial structure and identity. It followed that each would be vested with its own assets and be responsible for its own capital debt and financial performance. Thirdly, there must be greater commercial freedom.

The capital debt figures are formidable. Excluding certain liabilities for pensions funds and saving deposits, the total figure is £2,450 million. Of this, £475 million is to be written off as a bad debt - a financial transaction which raised no controversy on Monday despite the size of the figure. The balance of £1,975 million will be split up among the new undertakings, of which £1,575 million will be attributed to British Railways.

The British Railways' portion will be split into two parts. The first will be a doubtful debt of £650 million to £700 million, representing the written-down book values of the pre-1956 assets, and will go into a suspense account. The remainder, some £900 million, will represent the written-down value

of assets acquired since 1955 and will be repayable with interest. In addition, British Railways is running a current deficit of about £80 million a year before interest on capital is added. Eliminating this is, in itself, a formidable task of management. Service on the £900 million debt is therefore only possible at stage two of the operation.

Risk Capital for Jobbers

A RECOMMENDATION that jobbers should have power to seek risk capital has been made by a Special Committee of the Stock Exchange Council. Under present rules of the Stock Exchange, member firms (which includes jobbers as well as brokers) are prohibited from seeking or using capital from outside interests except on fixed terms or varying with Bank rate.

It is suggested that Rule 57 (b) (1) and certain others should be relaxed. The former limits the number of members in a corporate member company to twenty. They think it should be reviewed and possibly altered where there is no underlying partnership, which by law is limited to twenty members.

On balance, the committee favour extending the rule to allow a firm to take on more partners (thus possibly creating 'sleeping partners' who would nevertheless be members of the Stock Exchange and therefore subject to the obligations of that status) rather than allowing jobbers to go outside for capital. The opinion among jobbers, according to the report, favours a re-examination of the rules. The trend is for jobbing firms to amalgamate and therefore, in theory, to become stronger, but taxation inhibits the accumulation of capital by younger partners who eventually become senior and therefore the preservation of a firm's capital resources becomes difficult - a problem not unknown in professional partnerships.

Age of Machine Tools

A SURVEY has been made by the McGraw-Hill Organization into the age of machine tools in this country. It will be recalled that such an investigation was one of the recommendations made in 1960 in the Mitchell Report which was drawn up by a subcommittee of the Machine Tool Advisory Council. The organizers of the survey emphasize that the figures are provisional and subject to amendment. Work has been completed on only sixteen user industries which represent some 80 per cent of those to be covered in the survey.

On the definition of 'over age' which is accepted in the survey, 65 per cent of the machine tools used in the United Kingdom fit this classification. 'Over age' has been applied to all tools which are more than ten years old, that is presumably after they have been completely written off.

At first sight this looks a very high figure and it strongly suggests that only a modest proportion of industry is taking advantage of the latest develop-

ments in machine tools. Nevertheless, there must be many machine tools over ten years of age which are still giving excellent service. The tendency of some companies to run machinery right to the scrap heap is well known. Indeed there are some industries where such an attitude to machinery is the rule rather than the exception. In the increasingly competitive world which Britain is likely to face if it enters the European Common Market, companies will need all the assistance they can muster from modern equipment with a high level of output in order to expand their markets and reduce their prices. It is, of course, not apparent from figures of this kind how much the policy of many companies of running machinery to death is owed to their own inclination to delay capital investment and how much to the sales techniques and rate of technical progress of the machine tool industry itself.

Stock-market Dealings in 1715

FOR many years now the Library of The Institute of Chartered Accountants in England and Wales has possessed a continuous record of stock exchange prices from Wetenhall's *Course of the Exchange* of January 3rd, 1837, to date. Recently, the Librarian purchased at Sotheby's, for the sum of £25, John Freke's *The Prices of the several stocks, annuities, and other publick securities, etc., with the course of exchange from March 26th, 1715, to June 22nd, 1716*.

When Freke issued his book, Belgium was under the Hapsburgs, the Netherlands was a loose federation of states, Venice was still a republic and Naples a kingdom. The old calendar, in which the year began on March 26th, was still in force.

The prices common to this list and Wetenhall's indicate the existence of inflation between 1715 and 1837. Bank stock with a dividend of 8 per cent was 135 on March 26th, 1715, and stood at 210 on January 3rd, 1837, but most of the foreign rates of exchange moved against the pound, which lost about a third of its value. South Sea 6 per cent bonds are quoted, the prices shown by Freke fluctuating, sometimes rapidly, between £3 10s discount and £1 11s premium. The complete collapse was still four years away.

Towards the V.T.O. Fighter

IT was reported from Amsterdam last week-end that the Hawker-Siddeley Group has agreed to co-operate with six other aircraft manufacturers in the West to produce the first V.T.O. (vertical take-off) fighter for the North Atlantic Treaty Organization. The other companies are in Belgium, France, Western Germany, Holland and the United States.

Hawker and Focke-Wulf agreed in September 1961 to establish a joint design office for further work based on the Hawker P-1127 V.T.O. fighter and Western Germany has already agreed to use the

P-1127 or an aircraft developed from it in its new Luftwaffe.

Competition will come from at least two other sources to produce successful plans to N.A.T.O. for a vertical take-off or standing take-off machine and N.A.T.O. may take some time to decide with whom a prototype and finally a commercial order shall be placed, for several designs will be involved.

The United States has been in a very strong position, as the source for a number of years of financial aid to certain countries in Western Europe,

to press the sale of its own military equipment. This country had hoped that the process of standardization might strengthen its competitive position against the United States so far as its export market to Western Europe is concerned, but the composition of this consortium indicates that the Americans are actively interested in the V.T.O. project. It could be that this kind of co-operation is preferable either to the monopolization of the market by the United States or a dog-in-the-manger attitude by any one country such as the United Kingdom.

This is My Life . . .

by An Industrious Accountant

CHAPTER 99

THE junior articled clerk who assists on our audit has just done his Intermediate examination, done rather well in fact, he tells me modestly; he plans to holiday in Switzerland in January to celebrate the surmounting of his first hurdle. Apparently he's saved most of his monthly pay.

It made me think. Times have changed for the better for articled clerks in the last ten years, with the gradual disappearance of the lump-sum premium and the emergence of the annual salary in its place. Little do they know what the previous generation endured. In my apprenticed years we were always impecunious, our expanding and expensive adult tastes invariably outrunning the most generous largess of our parents who found our newly-realized necessities costly enough without subsidizing our luxuries also.

Ned and I did our Intermediate exams successfully in May, a month later finding the financing of our three weeks' holiday in August, on the style to which we felt ourselves entitled, quite beyond the appreciation of our dumbfounded fathers. It became essential to earn sufficient increment during the first ten days to maintain the balance of the vacation adequately. But how? A forward budgeting programme was necessary.

Our comrades in the University, being blest with long holidays, had no such worries. One young B.Com. was going hop-picking in Kent, a laborious but lucrative session; another would serve as day-time waiter in a holiday camp and revel nightly as an equal to square the account. We developed a better idea; Ned's uncle, who had theatrical connections, fixed a contract with a film unit for us, as extras at the unheard of rate of three guineas daily. Affluence was ours; Drury Lane and Beverly Hills were on the horizon;

Ned grew a hair-line moustache and I practised saying 'Yup' and 'Nope' through my nose.

As it happened, we found ourselves Norman knights in an Ivanhoe production, Equity being presumably more tolerant of extras in those days, and on the third day fortune smiled again. Horsemen were wanted at twice the rate. We fell over one another to volunteer; we were accepted.

Resplendent in crested helmets, chain-mail and surcoats, nobly mounted, our cavalcade trotted around the field the first morning, getting the feel of the triangular shields and clumsy lances. My first shock was the sight of Ned's knees protruding wildly as he bounced up and down; I didn't need to see his agonized eyes to realize that double pay, what Horace calls *sacra auri fames*, had lured him into duplicity. He was finding out the hard way that horsemanship is an art. 'How do I brake?' he gasped wildly, but my comments on heels down and thighs gripping were lost as he abruptly dismounted head first.

However, by midday, when the director called us, he looked the part, as we received our instructions in a leafy glade dappled with sunlight. 'You're returning from a raid, collect your loot', rasped the megaphone: the next moment I had a pig's carcase (imitation) on my crupper; Ned, smirking smugly, had a pretty Saxon maiden on his saddle-bow, all golden curls and blue eyes; the column moved off. The light wind was refreshing, the blue sky was cloudless, it was heavenly to think we were being paid for it.

A Saxon scream behind me broke the spell. Under Ned's hamhanded pulling his black steed was prancing; the raiders broke into a trot, into a canter; we were galloping madly down the path. The black charger, panicking suddenly, crashed through us from behind, unseating de Bracy and Front-de-Boeuf together; Ned's wildly flailing lance hit Bois-Guilbert's helmet and felled him, horse and man; Malvoisin pitched headlong over him. By some incredible chance the girl hung on by the horse's mane, after Ned had fallen off backwards.

The delighted director offered us an enormous bonus to do it again, as his cameras hadn't focused in time, but Ned's doctor said that ten days in bed was the minimum required for his bruises to heal. Articled clerks undoubtedly have an easier life nowadays.

Finance and Commerce

Spread

THIS week's reprint of the accounts of Williams & Williams Ltd, the metal window makers, gives an opportunity of second thought on the form of the consolidated profit and loss account. The object, let it be stated at once, is admirable – the provision of maximum information. There is a limit, however, to what the ordinary human eye and intelligence can take in and grasp. One has to remember 'ordinary'. There are some who can, blindfolded, play ten – and more – games of chess simultaneously; almost like human computers. But with these figures, the spread across the two pages and over to the next with a carry forward provides a stiff test for ordinary concentration.

Whether it is possible to get such a spread of figures into closer view is to a great extent a question that depends for answer on trial and error. Unless one has an absolute gift for presenting figures to best advantage, there is no real alternative to trying out this way and another until, by consensus of opinion, the best presentation is found.

Claim Treatment

In his statement with the Williams & Williams accounts, Mr S. R. Hogg, F.C.A., the chairman, draws attention to the further writing off of group interests, amounting to £147,131. Of this, £31,196 was written off the company's trade investment in the Congo, made necessary by the political upheaval there. Realization of assets in the U.S.A., Mr Hogg continues, have proved disappointing as compared with estimates of a year ago and a short-fall of approximately £87,000 has arisen.

There is further to be considered a claim against a Canadian subsidiary in respect of a contract completed prior to its liquidation. The subsidiary's liquidator and Williams & Williams have denied responsibility on the ground that if it emerges that liability does arise, it should fall, if it falls at all, also on other parties who were concerned with the building which is the source of the claim.

A direct provision of £27,000 has been made in the profit and loss account and these two items together account for £114,000 out of the £115,935. Mr Hogg says that none of these losses has any relation to the year's earnings and provision for them would have been made as part of the previous year's reorganization had the board then been aware of them. And so £100,000 has been taken from capital reserve.

In this connection, on the reorganization, says Mr Hogg, the large writings off last year in respect of

losses on closing down subsidiaries out of transfers from capital and revenue reserves became, in many respects, complex; dependent, for example, upon whether or not the goods or current accounts between the parent company and the respective subsidiaries had been funded.

Deficiency

THERE is another instance of a deficient mid-year statement in the announcement from Barry & Staines Linoleum. This company is not paying an interim dividend on its ordinary capital which in the balance sheet at January 31st, 1961, stood at £2,975,000. For the year to that date, an interim dividend of 8d per £1 ordinary stock unit was paid followed by another 8d final dividend to make 1s 4d per £1 unit for the year.

With the announcement of no interim dividend this time, the company states that owing to exceptionally difficult trading conditions, there was a substantial loss for the half-year to July 31st, 1961. There is little prospect of an improvement during the remainder of the current year.

What is needed, stated this board of directors, is an improvement in trade and there are indications that some improvement may be expected before long in certain markets.

Informationwise, what is needed is definition for 'substantial loss'. The board surely have the figures for the first half of the year to be able to talk about a 'loss' which is 'substantial'. Why not give them?

Inadequacy

STONE-PLATT INDUSTRIES LTD has recently provided an instance of how interim statements should not be presented – repeat NOT. This is a group with net assets of about £25 million in the engineering industry, textile machinery, air conditioning, etc. Sir Kenneth H. Preston, the chairman, in his statement with the accounts to December 31st, 1960, presented in June, said that despite growing competition and rising costs he would be disappointed if 1961 profits fell below 1960.

Four months later, with only two more months to complete the company's year, the Stock Exchange opened one morning with the news that the interim dividend had been cut from 4½ to 4 per cent. And the price of the shares dropped nearly 8s to 40s. Nearly two hours later came a statement that helped to soften the blow.

It was too early yet, the board said, to say what 1961 profits would be. It was considered prudent in the circumstances to revert to a 4 per cent interim dividend. The directors, however, hoped that the forecast of profits given in the chairman's statement in June might well be achieved.

There is only one answer to such a situation: an accounting system that will keep directors close up behind the financial results of the business they are responsible for, and a readiness on their part to share their knowledge with shareholders.

WILLIAMS & WILLIAMS LTD. AND SUBSIDIARY COMPANIES
Consolidated Balance Sheet as at 30th April, 1961

30/4/60 £	£	30/4/60 £	Cost or Valuation £	Accumulated Depreciation £	Net Book Value £
ISSUED SHARE CAPITAL OF WILLIAMS & WILLIAMS LTD.:					
151,660 8% Cumulative Preference Shares of 5/- each, fully paid	37,915	431,709	723,996	247,846	476,150
3,413,466 Ordinary Shares of 5/- each, fully paid	853,367	274,447	888,968	596,492	292,476
		85,115	153,201	98,988	54,213
		38,093	99,724	57,361	42,363
	891,282	1	1	1	1
		829,365	£1,865,890	£1,000,687	865,203
CAPITAL RESERVES:					
Share Premium Account	182,089				
Sundry Reserves	42,020	224,109	PRE-OPERATING COSTS (Overseas Subsidiary)	29,527	
			Less Amount written off	2,500	27,027
REVENUE RESERVES:					
General Reserves	806,799		TRADE INVESTMENTS at cost, less amounts written off	44,988	
Exchange Differences Reserve	43,537		Quoted (Market Value 30/4/61—£44,988)	14,468	59,456
	850,336		Not Quoted		
Deduct Profit and Loss Account, Debit Balance	174,022	676,314	INTERESTS IN SUBSIDIARY COMPANIES NOT CONSOLIDATED:		
		1,791,705	Shares at cost, less amounts written off		—
MINORITY INTERESTS:			Current Accounts, less amounts written off		47,588
Ordinary Shares	91,085		LONG TERM DEBTOR		9,964
Less Net Debit Balances on Profit and Loss Account applicable thereto	80,710	10,375	CURRENT ASSETS:		
			Stocks and Work in Progress at or under cost	1,361,045	
LOAN CAPITAL:			Sundry Debtors and Prepayments, less provisions	2,781,634	
Debenture Stock, Holding Company (secured)	731,300		Building Society Deposits, Overseas	93,479	
Debenture Stock, Overseas Subsidiary, £100,000 less amount held within Group	50,000	781,300	Bills Receivable, less provisions	22,807	
			Cash at Banks and in Hand	361,517	
			(4,395,862)		4,620,482
CURRENT LIABILITIES:			BALANCE ARISING ON CONSOLIDATION		
United Kingdom Taxation	6,650	64,490			1,804
Overseas Taxation	35,980		NOTE:—These Accounts should be read in conjunction with the notes on page [707].		
Bank Overdrafts and Advances (secured)	806,473		On behalf of the Board,		
Sundry Creditors and Credit Balances	2,199,041	3,048,144	S. R. HOGG J. H. W. MARGETTS } Directors.		
(2,756,965)					

£5,435,402

£5,435,402

£5,435,402

£5,631,524

WILLIAMS & WILLIAMS LTD. AND SUBSIDIARY COMPANIES
Consolidated Profit and Loss Account as at 30th April, 1961

	1960/61 Total £	1960/61 Home £	1960/61 Overseas £	1959/60 Total £	1959/60 Home £	1959/60 Overseas £
Net Trading Profit for the year, after providing for all items other than those shown separately herein	227,084	77,164	149,920	(Loss) 21,935	(Loss) 214,797	(Profit) 192,862
Net Credits arising from adjustments to amounts charged in previous years	6,646	4,197	2,449	2,630	(Dr.) 31	2,661
Profit arising from alteration in basis of Stock Valuation	—	—	—	6,006	—	6,006
Dividends and Interest received	7,960	—	7,960	2,742	—	2,742
	241,690	81,361	160,329	(Loss) 10,557	(Loss) 214,828	(Profit) 204,271
Depreciation charged	79,457	37,615	41,842	102,877	61,223	41,654
Directors' Remuneration, including Fees, £1,642 (1959/60—£2,092)	19,141	19,141	—	38,566	35,389	3,177
Audit Fees (Holding Company £1,500)	4,524	2,176	2,348	5,103	2,218	2,885
Debt Interest	46,939	44,439	2,500	39,375	39,375	—
Premiums paid on Debentures redeemed during year	187	187	—	—	—	—
Provision for Repatriation Costs (redundant overseas personnel) and for claims against the Holding Company	—	—	—	40,879	40,879	—
Proportion of profits or losses applicable to Minority Interests:						
Paid as dividends	602	—	—	—	—	—
Deducted from carry forward	12,890 (Cr.)	—	—	—	—	—
Profit for year applicable to Group	137,960	(Cr.) 138	(Cr.) 12,150	(Cr.) 6,975	(Cr.) 227	(Cr.) 6,748
Balances at beginning of year, brought forward:	103,730	(Loss) 22,059	(Profit) 125,789	219,825	178,857	40,968
Holding Company	(Dr.) 193,034	103,420	34,540	(Loss) 230,382	(Loss) 393,685	(Profit) 163,303
Subsidiary Companies	(Dr.) 192,780	—	—	—	—	—
Less Net Debit Balances relating to Subsidiaries not consolidated this year	385,814	—	—	154,381	—	—
Further Amounts written off Group Interests:	106,223	(Dr.) 443,434	(Cr.) 163,843	(Cr.) 8,611	(Dr.) 33,625	(Cr.) 179,395
Trade Investment in the Congo	31,196	—	—	56,634	—	—
Interests in Subsidiaries not consolidated this year and now being wound up	115,935	—	—	350,366	—	—
Less Appropriated from Sundry Capital Reserves	147,131	—	—	407,000	—	—
Less Appropriated from General Reserves 23,819	123,819	—	—	149,076	—	—
Taxation:	199,173	(Cr.) 7,065	30,377	257,924	107,418	150,506
United Kingdom Taxation recovered and provisions no longer required	36,386	458,428	259,255	342,536	534,728	192,192
Less Overseas Taxes payable	11,235	—	—	—	—	—
Inter-Group Dividends	(Dr.) 25,151	(Cr.) 36,386	(Dr.) 11,235	(Dr.) 42,349	(Cr.) 2,508	(Dr.) 44,857
Net Dividends of Holding Company:	(Dr.) 174,022	(Dr.) 422,042	(Cr.) 248,020	384,885	532,220	147,335
Preference	—	—	—	929	—	—
Balances at end of year, carried forward per Consolidated Balance Sheet:	(Dr.) 191,351	(Dr.) 371,052	(Cr.) 197,030	(Dr.) 385,814	(Dr.) 443,434	(Cr.) 57,620
Holding Company	(Dr.) 82,671	(Dr.) 371,052	(Cr.) 197,030	(Dr.) 193,034	(Dr.) 192,780	(Cr.) 192,780
Subsidiary Companies	(Dr.) 108,680	—	—	(Dr.) 192,780	(Dr.) 192,780	(Cr.) 192,780

CITY NOTES

INDECISION has returned to the stock-markets. Business has faded and the rally which brought a rise of over twenty points in *The Financial Times* industrial equities index has ended. Indecision has turned largely on uncertainty concerning Government economic policy.

The inroads made in the Chancellor's pay pause policy and suggestions that political pressure is being exerted for an early end to last July's restrictive measures have undermined confidence. There have also been suggestions that an early lifting of restrictions might be accompanied by moves to put a still heavier weight of taxation on industry. The Prime Minister's statement has relieved some anxiety on these points, but the stock-market continues to reflect economic policy uncertainties as well as a flow of adverse profit and dividend news.

RATES AND PRICES

Closing prices, Wednesday, November 22nd, 1961

Tax Reserve Certificates: interest rate (12.8.61) $3\frac{1}{2}\%$

Bank Rate

Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6 $\frac{1}{2}\%$
Oct. 27, 1960	5 $\frac{1}{2}\%$	Nov. 2, 1961	6%

Treasury Bills

Sept. 15	£6 11s 10.99d%	Oct. 20	£5 18s 5.35d%
Sept. 22	£6 10s 6.51d%	Oct. 27	£5 14s 6.57d%
Sept. 29	£6 11s 0.48d%	Nov. 3	£5 8s 6.10d%
Oct. 6	£6 2s 5.80d%	Nov. 10	£5 8s 5.49d%
Oct. 13	£6 0s 0.28d%	Nov. 17	£5 7s 9.71d%

Money Rates

Day to day	4 $\frac{3}{4}$ –5 $\frac{1}{2}\%$	Bank Bills	
7 days	4 $\frac{3}{4}$ –5 $\frac{1}{2}\%$	2 months	5 $\frac{3}{8}$ –5 $\frac{11}{16}\%$
Fine Trade Bills		3 months	5 $\frac{3}{8}$ –5 $\frac{11}{16}\%$
3 months	6 $\frac{1}{2}$ –7 $\frac{1}{2}\%$	4 months	5 $\frac{3}{8}$ –5 $\frac{11}{16}\%$
4 months	6 $\frac{1}{2}$ –7 $\frac{1}{2}\%$	6 months	5 $\frac{3}{8}$ –5 $\frac{11}{16}\%$
6 months	7–8%		

Foreign Exchanges

New York	2.81 $\frac{1}{2}$ – $\frac{3}{4}$	Frankfurt	11.26 $\frac{1}{2}$ –27 $\frac{1}{2}$
Montreal	2.92 $\frac{1}{2}$ – $\frac{3}{4}$	Milan	1747 $\frac{1}{2}$ – $\frac{3}{4}$
Amsterdam	10.13 $\frac{1}{2}$ –14	Oslo	20.03 $\frac{1}{2}$ – $\frac{3}{4}$
Brussels	140.14 $\frac{1}{2}$ – $\frac{3}{4}$	Paris	13.81 $\frac{1}{2}$ – $\frac{3}{4}$
Copenhagen	19.39 $\frac{1}{2}$ – $\frac{3}{4}$	Zürich	12.16 $\frac{1}{2}$ – $\frac{3}{4}$

Gilt-edged

Consols 4%	59 $\frac{1}{8}$	Funding 3%	59–69	82 $\frac{1}{8}$
Consols 2 $\frac{1}{2}\%$	38 $\frac{1}{8}$	Savings 3%	60–70	79 $\frac{1}{8}$
Conv'n 5 $\frac{1}{2}\%$	1974 92 $\frac{1}{2}$ xd	Savings 3%	65–75	71 $\frac{1}{8}$
Conversion 5%	1971 92 $\frac{1}{2}$	Savings 2 $\frac{1}{2}\%$	64–67	84 $\frac{1}{8}$
Conversion 3 $\frac{1}{2}\%$	1969 85 $\frac{1}{8}$	Treasury 5 $\frac{1}{2}\%$	2008–12	83 $\frac{1}{8}$
Conversion 3 $\frac{1}{2}\%$	51 $\frac{1}{2}$	Treasury 5%	86–89	81 $\frac{1}{8}$
Exchequer 5 $\frac{1}{2}\%$	1966 98	Treas'y 3 $\frac{1}{2}\%$	77–80	69 $\frac{1}{2}$ xd
Funding 5 $\frac{1}{2}\%$	82–84	Treasury 3 $\frac{1}{2}\%$	79–81	69 $\frac{1}{2}$
Funding 4%	60–90	Treasury 2 $\frac{1}{2}\%$		37 $\frac{1}{2}$
Funding 3 $\frac{1}{2}\%$	99–04	Victory 4%		94 $\frac{1}{2}$
Funding 3%	66–68	War Loan 3 $\frac{1}{2}\%$		51 $\frac{1}{2}$ xd

204,81	Less Capital Reserves pertaining to Overseas Subsidiaries not brought into consolidation this year	40,857
	Amounts pertaining to changes in Minority holdings during year, etc.	1,886
	Provision against investment in Company not consolidated last year but now brought into consolidation	19,518
100,000	Amount taken to credit of Consolidated Profit and Loss Account against further amounts written off interests in Overseas Subsidiaries	100,000
£42,020		
971,547	(b) General Reserves:	
	As at 30th April, 1960	23,819
	Less Amounts transferred to credit of Profit and Loss Account	
	Internal Group Reserves against amounts owing by certain Subsidiaries now transferred on those Subsidiaries not being brought into consolidation this year	126,917
164,748	General Reserve at 30th April, 1960, in books of an Overseas Subsidiary whose Accounts have not been brought into consolidation this year	14,012
£806,799		

- (c) Commitments in respect of Capital Expenditure at 30th April, 1961, were approximately £12,300 (last year—nil).
- (d) In the case of Subsidiaries abroad there were Contingent Liabilities amounting to £238,011 in respect of Bills discounted and Guarantees. In addition there were Contingent Liabilities in respect of Guarantees amounting to approximately £124,000 given on behalf of Subsidiaries not brought into consolidation. Of this amount, £90,000 is not admitted as explained above.
- (e) Amounts in respect of Subsidiaries abroad have been converted at the appropriate rate of exchange ruling at 30th April, 1961. A surplus of £43,537 arises on conversion, and this is shown in the Reserves.
- (f) Additional United Kingdom taxes would be payable if that part of the balances on Profit and Loss Account which relates to Overseas Subsidiaries were transferred to this country.
- (g) In the case of certain Subsidiaries operating overseas the Annual Accounts, for reasons of administrative convenience, are closed on dates other than 30th April.

Notes on Accounts

For the year ended 30th April, 1961

HOLDING COMPANY:

- (a) Surplus on revaluation of Shares in Subsidiary Companies:
Balance at 30th April, 1960
Add further surplus arising from a review of the book values of Shares by the Board
- Less Amount transferred to Profit and Loss Account as an offset against further amounts written off interests in Overseas Subsidiaries
- (b) At 30th April, 1961, there were Contingent Liabilities of:
- (1) £5,250 in respect of partly paid Shares in certain Subsidiaries.
- (2) £34,000 in respect of Guarantees given on behalf of Overseas Subsidiaries, certain of which are now in liquidation.
- (3) £75,000 in respect of a Guarantee regarding an Overseas Subsidiary's Bank Overdraft.
- (4) A claim under a performance bond against an Overseas Subsidiary now in liquidation amounting to £90,000 which is guaranteed by the Holding Company. This claim is not admitted.

- (c) The Bank Overdraft is secured by two Debentures for £250,000 each and a further issue of £250,000 Debenture Stock issued as a collateral security. All these rank *pari passu* with the £731,300 6% Debenture Stock shown in the Balance Sheet.
- (d) At 30th April, 1961, commitments in respect of Capital Expenditure amounted to approximately £8,000 (last year—nil).
- (e) Preference Dividends have not been paid since 31st October, 1959, and the arrear at 30th April, 1961, are £4,549 gross.

£	317,494
	100,000
	417,494
	100,000
	£317,494

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Small Practitioner' Inquiry

SIR, - 'Managing Clerk' in his letter to you published on November 18th, seeks to kill the goose that lays his golden eggs.

One of the problems of the small practitioner is that he cannot afford to pay his staff as he would wish, and the objective in 'closing the profession' would be:

- (1) to raise fees to a realistic level consistent with the service given,
- (2) thereby to enable practitioners to pay their staff adequately and,
- (3) thereby ensuring that at both qualified and unqualified levels within the profession standards of service to the public would be much improved because,
- (4) closing the profession would involve a new form of disciplinary machinery within the profession whereby the taxing of bills of costs would be linked with an examination of the standard of service rendered.

When this comes about (I say 'when' in spite of the President's speech at the last annual meeting of the Institute), managing clerks (unqualified) will not need to 'prepare accounts for their local butcher in order to augment their income'.

Yours faithfully,

Enfield, Middx. METCALFE COLLIER, F.C.A.

SIR, - The 'Managing Clerk (unqualified)' in the issue of November 18th is not a sympathetic character. He apparently lacks first-hand knowledge of the scope of this inquiry: nor do I understand why he should apparently expect the Institute to consider the 'claims' of unqualified accountants in preference to the interests of its own membership.

It is not within the competence of the Institute itself to establish a closed shop, and any legislation that should be promoted to that end would have to include transitional safeguards for the legitimate interests of all accountants in practice at the material time.

The claim that practical experience may count for more than a professional diploma is neither new nor in the best of taste: and nobody is denying the value of practical experience as such. It is not unknown for long-service men to be offered free articles, enabling them to qualify for membership of the Institute and a possible future partnership. Failing articles, it is still

open to anyone of suitable experience either to gain entry to another body of accountants whose members enjoy facilities commensurate for most practical purposes with those of the Institute, or to seek individual recognition under Section 161 (1) (b) of the Companies Act, 1948.

As I am not engaged in public practice, and have no immediate intention of so doing, I trust that your correspondent will acquit me of a purely selfish interest.

Yours faithfully,

Pinner, Middx. M. BARRADELL, LL.B., F.C.A.

Should Britain Decimalize?

SIR, - Mr Jewett's attitude (your issue of November 11th) is typical of the insularity which bedevils British thinking today.

Are we to gather from his letter that every institution having 'stood the test of time', as he puts it, is *ipso facto* the best available? And that all 'foreign' standards are second-grade?

It is more the wonder that the present archaic system of coinage (and measurement) has in fact lasted all this time, when common sense and nine-tenths of the world bear witness to its clumsiness; let us face this problem honestly and admit that, just this once, the British system is *not* the best, and, following the example of our neighbours, zealously adopt decimalization for our mutual benefit.

Yours faithfully,

Tettenhall, Staffs. L. McLEAN, A.C.A.

Duplicate Payments

SIR, - In reply to your correspondent 'D. A. F.' (November 18th issue), a fairly sound means of avoiding duplicate once-for-all payments is to adopt the following records and system.

(1) The Commissions Payable Account in the Nominal Ledger should have five columns and be ruled as shown [at the top of page 709].

(2) Commission due to be paid should immediately it has been ascertained, be entered as a debit in the amount column and as a credit in the outstandings column, thus providing an up-to-date record of the account. The date, name of agent or broker, and other identifying information may also be entered.

(3) Any invoice received from the agent or broker should *not* be automatically regarded as foolproof posting medium, but should be checked with entries in the Commissions Payable Account. If the invoice appears consistent with an outstanding entry which has not yet been paid, then the invoice should be marked as being authorized for payment. The amount to be paid should immediately be entered as a debit in the outstandings column and should be marked with a symbol linking the entry with the credit which it has settled; the credit also should be marked

COMMISSIONS PAYABLE ACCOUNT

Date	Narrative	Folio	Outstandings		Amount		Balance
			Dr	Cr	Dr	Cr	

with the same symbol. The cash-book posting can be subsequently checked and the folio columns can then be entered. The difference between the total debits and total credits of the amount column should be entered in the balance column. When extracting balances, not only should the figure in the balance column be extracted but also the difference between the total debits and total credits of the outstandings column.

If the entries in the Commissions Payable Account are numerous, then periodic summaries of the outstandings may be drawn up. Even more numerous entries may be recorded by opening two, or more than two, easily identifiable Commissions Payable Accounts.

Yours faithfully,

London W1.

P. L. GRIFFITHS.

Coffee Pot Club

SIR, - In 1955, you were kind enough to publish a letter signed by Mrs H. D. R. P. Lindsay, the founder of the Coffee Pot Club, describing the birth of the club and the reason for its creation as a meeting place for young professional people and young university graduates of both sexes.

Since that date, with practically no publicity, the idea of the Coffee Pot has grown to such an extent that there are now thirty clubs in many of the large towns in Great Britain providing congenial social activities at a reasonable cost.

The age limit for new members for most of the clubs is 19 to 30 and the basic function is a weekly 'At home' at which members meet and talk and arrange other meetings and activities.

The London Coffee Pot provides facilities for squash, tennis, theatre parties, dancing and other activities. A restaurant is available on four evenings in the week for members and their guests and plans are now in hand for the fourth annual December Ball which is to be held at the Hurlingham Club on December 15th.

Anyone who would like to hear more about the London Coffee Pot or any of the other clubs is invited to write to me at the address below.

Yours faithfully,

108 Baker Street
London W1

JOHN FINCHETT, A.C.A.
National Secretary and
Chairman, London Coffee Pot Club.

Use of the Appropriation Account

SIR, - May I invite the comments of your readers on the following points. The existence of the 'Appropriation Account' is not fully made use of, probably due to little thought having been given to it. I suggest its use must be governed by the following principles.

- (1) Aside from taxation, the account is debited by such amounts and for such purposes as the directors think wise and prudent, subject to the confirmation of the shareholders.
- (2) In a going concern, the distribution of any credit balance, in this account, is primarily conceived with a view to the future of the business, as opposed to the historic nature of the profit and loss items.
- (3) Absolute precision (again aside from taxation) is unnecessary, i.e. the account particularly lends itself to entries such as provisions and reserves, *a priori* in the nature of estimations.

Would it not then be in conformity with such principles to utilize this account for provisions against bad debts, which when becoming finally bad, an equal amount will be credited to the profit and loss account and debited to the provision for bad debts, against which those bad debts will be written off. This is bound to make the profit and loss account more consistently historic and precise. I further suggest that some of the provisions for accrued liabilities may, after consideration, lend themselves to similar treatment.

Yours faithfully,

London NW2.

WAHIB SHAIR.

Stock Records: Builders' Supplies

SIR, - Can any of your readers suggest a suitable form of stock recording system for a company carrying approximately 40,000 lines of ironmongery and builders' supplies? The stock is normally contained in bins.

Warehouse staff should not be burdened with more than the minimum of recording, and the immediate need is for a daily notification to a buying department of the fall of stock items below the minimum level.

Any suggestions regarding informative reading matter on this subject would be helpful.

Yours faithfully,

STOCK PILER.

For Students

AUDITING Verification of Assets

Question

The following appear as current assets in the balance sheet as on December 31st, 1958, of a limited company:

- (1) Investments at cost £75,000
(2) Cash in hand £375

State how you, as auditor, would confirm the existence and ownership of these assets.

Answer

The following procedure will be followed in order to confirm the existence and ownership of the assets mentioned:

(1) Investments at cost, £75,000.

(a) The auditor should obtain a schedule of the investments held and this should be certified by a responsible official. All the investments for which certificates are held should be produced at the same time and the certificates compared with the schedule of investments presented to the auditor. The investments may consist of:

- (i) *Registered Stocks.* The certificates issued in respect of these should be examined, and the auditor should see that they appear to be properly executed and sealed. If the securities are registered in the names of nominees, the auditor should ask to see a letter of trust acknowledging that the securities are held on behalf of the company free of encumbrances, or a blank transfer signed by the nominee should be held.
- (ii) *Inscribed Stocks.* In order to verify the existence and ownership of such stock at the date of the balance sheet, a form of certificate should be obtained from the Bank of England or other place of inscription, which should be filled up with particulars of the stock and the names of the persons to whom it is inscribed, and sent to the Bank for verification, together with the prescribed fee, if any; if in order, the certificate will be returned duly signed on behalf of the Bank, and is evidence that so much stock was held on the date in question. The Bank should be requested to forward the certificate direct to the auditor.
- (iii) *Bonds to Bearer.* As it is compulsory to lodge all bearer bonds and share warrants to bearer with recognized depositories, a certificate must be obtained by the auditor from the depository concerned stating that the bonds are held by them and that the coupons for the future payments of interest or dividend are attached.

(b) Additional evidence as to the existence of the investments can be obtained by vouching the dividends and interest received with the dividend counterfoils.

(c) Where any investments have been sold between the date of the balance sheet and the date of the audit, the brokers sold note should be inspected noting that the nominal value of the investments sold is the same as that held at the date of the balance sheet. Conversely, where any of the investments included in the schedule represent recent purchases, in respect of which certificates have not yet been delivered, the relevant

bought notes and transfer receipts should be examined and a note should be made to see that the certificates are, in due course, received by the company.

(d) If any of the investments have been pledged as security for a loan, the auditor should make such inquiries as may be necessary to satisfy himself as to the bona fides of the transaction, and should obtain a certificate from the pledgee as to the existence of the securities.

(2) Cash in hand, £375.

This should be produced to and counted by the auditor. If the auditor is unable to attend for this purpose on the last day of the accounting period he should verify the cash-book up to the date on which he attends, and count the cash on that day. Where there is more than one cash balance the balances on all accounts should be produced at the same time to the auditor and verified by him. If it is found that any part of the balance is represented by IOUs or post-dated cheques cashed for members of the staff or others, this fact should be reported to the directors, and inquiry made as to whether any such amounts are likely to become irrecoverable.

INVESTMENT ACCOUNTS

Most students must, we believe, be familiar with the method of keeping the ledger accounts for investments whereby the interest and dividends arising therefrom are passed through the investment accounts in the ledger. This method should be adopted where investments are numerous so that it can be seen at a glance whether or not all the income due on each investment has been received. The usual type of examination question is so framed as to require treatment in this manner. The problems to be considered are:

- (a) the treatment of dividends or interest arising on the purchase or sale of investments either cum div. or ex div.;
- (b) the treatment of dividends accruing to the date of balancing the accounts;
- (c) the valuation of investments held at balancing dates.

The solution to the question below is annotated in order to illustrate the problems involved. •

Question

During the year ended September 30th, 1961, Safe Investments Ltd purchased and sold investments as hereunder:

1960	
Dec. 1st	Purchased £10,000 Alfa Ltd 3 per cent Debentures (interest payable April 1st, July 1st, October 1st and January 1st) at 87½ cum div.
1961	
May 1st	Sold £2,000 of the debentures at 87 cum div.
June 1st	Sold a further £2,000 debentures at 88½ ex div.
Sept. 1st	Purchased £6,000 more of the same stock at 68½ ex div.

Interest was paid on the due dates, and on September 30th the market price of the debentures was 88.

You are required to show the ledger account of the investment for the year, ignoring income tax, brokerage and stamps, and making apportionments in months.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS' ANNUAL DINNER

The annual dinner of the Manchester Society of Chartered Accountants was held at the Midland Hotel, Manchester, on November 16th, when Mr W. Hare, M.A., F.C.A., President of the Society, presided over a company of more than four hundred members and guests.

Sir Kenneth D. Stewart, Bt, C.B.E., chairman of the Trustee Savings Banks Association, proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said that the Institute had always laid down high standards for the conduct of members and there was no doubt that these ideals had been of great benefit to the business community. A tremendous debt of gratitude was owed to the chartered accountant for his integrity, he added.

Public Relations

Mr P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales, in responding to the toast, referred to the recently established Public Relations Committee of the Council which had as one of its duties 'to project an image of what a chartered accountant is and what he does'. This was not an easy thing to do, he said, because of the variety of ways in which the members of the Institute earned their living. He continued:

'As members of the Institute we are modest violets where publicity is concerned and conceal our many fine qualities behind a modest exterior. Furthermore there is a highly efficient Investigation Committee of the Council which sees that such blossoming as we do, is in accordance with our regulations.

'This question of images is an awkward one', the President went on. 'We are dedicated as a profession and whether in industry, practice or what you will, to the concept of a true and fair view of facts and figures, but words have queer associations. What is the Manchester image? It, to me, conveys a sense of a great industrial area, Cobden, free trade, cricket, radicalism, Owens, the Hallé Orchestra, a superb newspaper, kindness, and all wrapped up in more than a fair proportion of rain. How as an image do you project that? What is in image of 35,000 members, an intake of 3,000 articled clerks per annum, members in internationally known practices, members at the head of small practices or businesses, members employed in Government, overseas and so on? In addition to all of this I would say that our members have a record of assistance in charitable causes which is second to none.

'We shall do our best to ensure that the public know who we are, what we do and what we can do. And this leads me on to one further thought. This is an age of specialization in almost all walks of life and not least in business, and business men are wanting to know not only how past profits were made, but what profits can be made in future, always accepting the hazards of the economic climate. I would urge that where a business man is contemplating alterations in his systems or organization, he should first consult his auditors who can render great assistance in almost every case. If, however, specialist advice on managerial problems is required, the profession is fully equipped through firms specializing in various fields to render it.'

'Small Practitioner' Inquiry

It was necessary, said the President, to consider the problems of professional life as affecting all the members of the Institute and at times it fell to the Council to take a section of the membership and see how it was being affected by business life. He added:

'At the moment we are engaged, through the help of the district societies, of which Manchester is one of the greatest and oldest, in an inquiry into the problems as they affect our members who are in practice in a small way. I think there is no need for me to say in Manchester, with its individual approach, that the individual is important even in the general scheme of things today. I do urge all our members who feel they can contribute something to this inquiry to get into touch with their district society, or branch secretary, whether they are members or not, so that this inquiry may enable us at Moorgate Place to have facts to consider.'

The toast of 'The Guests' was proposed by Mr Hare, who said that, for the first time ever, the presidents of all the district societies - fourteen in number - were present at the dinner. The Lord Mayor of Manchester, Alderman L. W. Biggs, J.P., responded.

A toast was proposed to the chairman, and in his reply Mr Hare expressed appreciation of the work of the dinner committee, comprising Miss Isabel Ritchie, Assistant Secretary of the Society, Mr Trevor Booth and Mr T. Hedley Bell, in organizing the evening so successfully.

The Company

Among those present were:

Messrs R. Brierley, M.M., J.P., F.C.I.B. (*Chairman, of the Corporation of Insurance Brokers, Lancashire and North Western Group*); G. W. W. Bunting, B.A., LL.B. (*President of the Manchester Law Society*); J. Charnock, A.A.C.C.A. (*President of the Association of Certified and Corporate Accountants, Manchester and District Society*); A. H. Ensor (*President, Manchester and District Bankers' Institute*); C. A. Evan-Jones, M.B.E., M.C., B.A. (*Under-Secretary of The Institute of Chartered Accountants in England and Wales*); W. C. H. Howat, A.C.I.I. (*President of the Insurance Institute of Manchester*).

Messrs H. R. Page, M.A.(ADMIN.), F.I.M.T.A. (*City Treasurer of Manchester*); H. Pilkington (*Chairman of the Building Societies' Institute, North Western Group*); E. E. Rushton, F.C.W.A. (*President of the Institute of Cost and Works Accountants, Manchester and District Branch*); Hardman Smith (*Chairman of the Manchester Stock Exchange*); W. Taplin, M.A., B.COM. (*Editor of 'Accountancy'*); R. Thomas, M.A. (*President, Manchester Chamber of Commerce*); H. Thornton, F.A.I. (*Chairman of the Chartered Auctioneers' and Estate Agents' Institute, Manchester and District Branch*); J. L. Thorpe (*H.M. Principal Inspector of Taxes*).

Together with the presidents of all the district societies of the Institute.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS M. A. HORSLEY & Co, Chartered Accountants, of Britannic Chambers, 1A Highfield Road, Birmingham 28; and 37 Golden Square, London W1, announce that as from November 1st, 1961, Mr A. STEWART, C.A., Mr M. L. FLETCHER, A.C.A., and Mr A. R. BARRETT, A.C.A., have been admitted as partners in the Birmingham practice. Mr M. A. HORSLEY, F.C.A., has retired from the Birmingham practice as from November 1st, 1961, to become the sole partner of the firm's London practice. Mr HORSLEY will in future be available in the Birmingham office in a consultative capacity.

MESSRS MANN, JUDD & Co, Chartered Accountants, of 8 Frederick's Place, London EC2, announce with deep regret the death of their partner, Mr FRANK BOOTH, C.A., on November 18th.

MESSRS NORMAN, WRIGHT & Co, Chartered Accountants, of 5A Waterloo Street, Weston-super-Mare, announce that Mr JOHN M. MANN, B.A.(COM.), A.C.A., has been admitted a partner as from November 1st, 1961.

Appointments

Mr. E. E. H. Cage, F.C.A., chief executive of Crawley Development Corporation, has been appointed finance officer to the Commission for the New Towns.

Mr A. Taylor, F.C.A., special director of English Steel Corporation Ltd, has been appointed chief accountant of the company.

Mr T. B. Bunting, F.C.A., has been elected chairman of the Brewers' Society.

Mr C. E. W. Lavender, M.C., F.C.A., has been appointed chairman of Trafford Park Estates Ltd.

Mr C. H. Rowsell, F.C.A., has been appointed a director of Quinton Hazell Ltd.

Mr J. R. Eades, F.C.A., has been appointed commercial director of Ind Coope Ltd.

Mr R. E. Burrows, M.A., A.C.A., secretary of Acorn Anodising Co Ltd, has been appointed a director of the company.

IN PARLIAMENT

Exporting Industries: Depreciation Allowance

Mr NABARRO asked the Chancellor of the Exchequer what would be the annual cost to the Revenue of accelerating by three times the current rate of depreciation for tax purposes on plant, equipment, vehicles and buildings if granted to firms exporting more than 25 per cent *ad valorem* of their output of finished goods; and if he will estimate the effect of such an exports' incentive to British firms upon United Kingdom trade under existing international agreements.

Mr SELWYN LLOYD: I regret that there is not enough information on which to base an estimate either of the cost of the suggested concession or of its effect on exports.

Mr NABARRO: Does my right hon. and learned friend recall that last Tuesday he undertook to examine this

matter when he kindly gave way to me in the middle of his speech? Since then has it not come to light that examination of the balance sheet of any French major industrial undertaking will reveal that the present French Government are giving this direct export incentive to manufacturers in the form of an accelerated depreciation allowance? If the French can do it within international agreements to which we are also party, why cannot we do it?

Mr LLOYD: Following upon my hon. friend's helpful intervention the other day, I made inquiries into this matter and I understand that for some reason or another the French are shortly to abandon this system. Whether this is because of its complications or for other reasons I have not yet been able to find out.

Hansard, November 14th, 1961. Oral Answers. Col. 185.

Surtax

Sir D. CAMPBELL asked the Chancellor of the Exchequer if he is aware that in applying the assurance given by the Financial Secretary to the Treasury on August 3rd, 1961, in answer to a Question by the hon. Member for Finchley, the Special Commissioners of the Inland Revenue are regarding a material increase in turnover and profits as a change in circumstances entitling them to take surtax action under Section 245 of the Income Tax Act, 1952, notwithstanding that the same proportion of profits has been distributed as was accepted as reasonable for past years; and what instructions he proposes to give to implement the original assurance and clarify the position.

Sir E. BOYLE: As I indicated on August 3rd, there has been no change in the Special Commissioners' policy on surtax directions. If my hon. friend has a particular case in mind, I will have it looked into if he will send me the particulars.

Hansard, November 14th, 1961. Written Answers. Col. 32.

Company Taxation: Credit Card Facilities

Mr RIDLEY asked the Chancellor of the Exchequer whether he will prohibit the use of credit card facilities being allowed against company taxation for expenses.

Mr SELWYN LLOYD: I am not convinced that it is the use of these cards, as distinct from cash, that leads to abuse, but if my hon. friend wishes to bring any cases to my notice, I will of course consider them.

Hansard, November 14th, 1961. Oral Answers. Col. 175.

Decimal Currency

Mr DU CANN asked the Chancellor of the Exchequer what consideration he has given to the proposal to introduce a decimal currency system in the United Kingdom.

Mr SELWYN LLOYD: I still hope to make a statement before the end of the year.

Hansard, November 14th, 1961. Oral Answers. Col. 175.

War Widows' Pensions: Income Tax

Mr AWBERY asked the Chancellor of the Exchequer if he is aware that British war widows living in Canada are liable, unlike Canadian war widows in identical circumstances, to pay tax on grants received from the United Kingdom Government, and also on any grants received from the Canadian Government; and if he will introduce legislation to assist these widows in these respects.

Mr SELWYN LLOYD: A war widow's pension from British funds is subject to United Kingdom tax whether she lives in this country or abroad; and I do not think there should be a special exemption when she lives in Canada. In the type of case of which the hon. Member is thinking, United Kingdom tax would not be chargeable on the grant from Canadian funds; but under the normal rules relating to non-residents the latter grant, in common with any other non-liable income, would affect the amount of personal reliefs allowable against the recipient's liable income from British sources. I am considering this last aspect.

Hansard, Nov. 16th, 1961. Written Answers. Col. 88.

A.C.A. LIMITED

A new private company, A.C.A. Limited, has been registered with a share capital of £100. Its formation follows the registration of F.C.A. Limited, referred to in *The Accountant* of November 11th. The principal object of the new company is to secure to The Institute of Chartered Accountants in England and Wales and its members, as a company title, the letters that designate an Associate member of the Institute.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS**Annual Dinner and Dance**

The President of The Association of Certified and Corporate Accountants, Mr G. L. Barker, F.A.C.C.A., together with Mrs Barker, presided over a company of about 500 members and guests at the annual dinner and dance of the Association held at Grosvenor House, Park Lane, London, on Monday evening.

Among those present were the Rt Hon. the Viscount Brentford and Viscountess Brentford; Mr P. F. Granger, F.C.A., President, The Institute of Chartered Accountants in England and Wales, and Mrs Granger; Mr Niall MacPherson, M.P., Parliamentary Secretary, Board of Trade, and Mrs MacPherson; the Rt Hon. Sir Reginald Manningham-Buller, Q.C., M.P., Attorney-General, and Lady Manningham-Buller; Mr G. A. Usher, M.B.E., T.D., C.A., President, The Institute of Chartered Accountants of Scotland; and

Professor W. T. Baxter (*Professor of Accountancy, University of London*), and Mrs Baxter; Mr R. Berens; Mr P. Chapman (*Assistant Editor, 'The Accountant'*), and Mrs

Chapman; Mr L. F. Cheyney, O.B.E. (*Secretary, The Institute of Municipal Treasurers and Accountants*), and Mrs Cheyney; Mr William Clark (*Member of Parliament, Nottingham South*), and Mrs Clark; Sir Cecil Crabbe (*Chief Registrar of Friendly Societies*), and Lady Crabbe; Mr Derek du Pré (*Secretary, The Institute of Cost and Works Accountants*), and Mrs du Pré; Mr C. J. Dunham (*Chairman, The Building Societies Association*), and Mrs Dunham; Mr C. G. Garratt-Holden, C.B.E., T.D. (*Secretary, The Building Societies Association*), and Mrs Garratt-Holden; Mr J. E. Harris (*Immediate Past President of the Association*), and Miss E. Harris; Mrs Sonya Hinton; Mr P. F. Hughes (*Editor, 'Taxation'*), and Mrs Hughes; Mr W. Jackson (*Member of Council*), and Mrs Jackson; Sir Alexander Johnston, K.B.E., C.B. (*Chairman, Board of Inland Revenue*), and Lady Johnston; The Lord Latham, K.St.J., J.P. (*Member of Council*), and Lady Latham; Mr J. C. Latham, D.L., and Mrs Latham; Mr J. Leckie, C.B. (*Second Secretary, Board of Trade*), and Mrs Leckie; Mr E. H. V. McDougall (*Secretary, The Institute of Chartered Accountants of Scotland*), and Mrs McDougall; Dr A. J. McIntosh (*Director, City of London College*); Mr A. S. MacIver, C.B.E., M.C. (*Secretary, The Institute of Chartered Accountants in England and Wales*), and Mrs MacIver; Mr P. J. Mantle, C.M.G., and Mrs Mantle; Mr T. S. Martin, and Mrs Martin; Mr A. C. S. Meynell (*Member of Council*), and Mrs Meynell; Mr C. D. Morley (*Secretary, The Stock Exchange*), and Mrs Morley; Sir Edward Norman (*Chief Inspector of Taxes*), and Lady Norman; Mr F. Cameron Osbourn, M.B.E. (*Secretary of the Association*), and Mrs Osbourn; Mr J. F. Phillips, O.B.E. (*Secretary, The Chartered Institute of Secretaries*), and Mrs Phillips; Mr J. Pickering, J.P., and Mrs Pickering; Mr C. E. Power (*Vice-President, The Institute of Cost and Works Accountants*), and Mrs Power; Mr S. M. Rix (*President, The Chartered Institute of Secretaries*); Mr J. B. Smith (*Assistant Secretary, Board of Trade*), and Mrs Smith; Dr Donald O. Soper (*Superintendent, West London Methodist Mission*), and Mrs Soper; Mr C. R. Sopwith (*The Public Trustee*), and Mrs Sopwith; Mr R. J. W. Stacy, C.B. (*Under-Secretary, Board of Trade*), and Mrs Stacy; Mr W. Taplin (*Editor, 'Accountancy'*); Mr H. T. Veall (*Controller of Death Duties*), and Mrs Veall; Alderman Sir Frederick Wells, Bt; Mr C. Reginald Willis (*Editor, 'The Evening News'*), and Mrs Willis.

The toast of 'The Guests' was proposed by the President and Mr Graham A. Usher, M.B.E., T.D., C.A., President of the Scottish Institute, responded.

STOKE-ON-TRENT**CHARTERED ACCOUNTANTS' DINNER**

'From a personal point of view, I am quite sure that our aim must be that every man, woman and child should regard it as a normal thing to have their chartered accountant', declared Mr A. H. Walton, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, at the annual dinner of the Stoke-on-Trent Area Branch of the Birmingham and District Society of Chartered Accountants held at the North Stafford Hotel, Stoke-on-Trent, on November 14th.

Mr Walton, who was responding to the toast of

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'The Institute', went on to say that despite the fact that chartered accountants do 99 per cent of the country's public company audits and a high proportion of private company work, the public still does not know much about the accountant. He felt sure that there would be no need for accountants to worry about advertising or competition if the proper image of the accountant was established in the public's eye, and as long as they maintained their standard of training and integrity.

Mr C. Malkin, F.C.A., Chairman of the Branch, proposed the toast of 'The Guests', and, responding, Mr J. F. N. Hodgkinson, Registrar at the University College of North Staffordshire, expressed the wish that the good relations between the college and the society would continue to improve.

The company of 195 members and guests included Mr D. Morris, F.C.A. (*President, North Staffordshire and District Society of the Association of Certified and Corporate Accountants*); Mr H. V. Fewings (*President, Insurance Institute of Stoke-on-Trent*); Mr R. A. Harding (*President, North Staffordshire Chamber of Commerce*); Mr F. G. Harvey (*President, North Staffordshire and District Society of the Institute of Bankers*), together with representatives from the Birmingham, Wolverhampton and Coventry branches of the Society.

BEDS, BUCKS AND HERTS BRANCH

Annual Dinner

Nearly ninety members and guests attended the first annual dinner in place of the usual luncheon at the Bull's Head, Aylesbury, on November 14th, of the Beds, Bucks and Herts Branch of the London and District Society of Chartered Accountants. It was the first meeting of the branch to be held in Aylesbury.

The toast of 'The Institute' was proposed by Mr Geoffrey Stevens, M.P., F.C.A., chairman of the Income Tax Payers Society. Referring to the fact that there were only eight chartered accountants in the House of Commons and five in the House of Lords, he asked that older partners should encourage young, keen and vigorous men to stand for Parliament, who had expressed the wish to do so. 'We haven't many friends in Whitehall', he admitted, and spoke of the audit clause in many Bills which allowed 'any Tom, Dick or Harry to sign the accounts of committees'.

Responding, Mr Wright, M.A., F.C.A., a member of the Council of the Institute, said that the profession was not a closed shop protected by statute, and pointed out that anyone could put up a plate and practise. The difference between the qualified chartered accountant with long training and professional discipline, and the unqualified man, must be made clear to the public, he said.

THE DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS

Industrial and Administrative Group

'Management and the accountant - the next decade' was the subject of an address by Mr William Murray, M.A., B.COM., C.A., Lecturer in Accountancy, Dublin University, at a recent meeting of the Industrial and Administrative Group of the Dublin Society of Chartered Accountants.

In Mr Murray's view, the next decade will see the emergence of a planned economy. Such a development was inevitable, he said, from the formation of the Common Market, with its attendant monopoly groups and rationalization and reorganization of industry. New challenges will confront administration; management will become even more an exact science. The job of management will not change, only its methods. Technical education will expand, the industrial engineer will be in greater demand and the organization man will come into his own.

In such an atmosphere, even greater importance will be attributed to administrative ability and advice to management. Personnel will be required who have the ability to analyse and assess the operations of industry, to measure the results and, taking current and future economic forces into consideration, present its findings to management.

The accountant, he went on, must decide whether he is prepared to take on such a proposition. If he accepts this opportunity and challenge, his ability to tackle the job must be considered. He must look at his profession through the eyes of management, at all times bearing in mind the requirements of management, and set out to satisfy the needs of the interested parties.

The image created by the accountant, said Mr Murray, was that of a man of integrity and intelligence, with a first-class knowledge of legal constraints. However, he appeared to be lacking in imagination and creative thought; he lived in a mental strait jacket, preoccupied with the finished product, the equation of a series of figures, the balance sheet, but did not know or understand the make-up of such figures. He was unfamiliar with management techniques in use today. His motivation for doing the job was suspect, while he hid his processes behind a mask of terminology, allowing book-keeping to dominate his thought instead of being a means to the end. He was preoccupied with detail and slow in delegating such detail to its proper level. Such an image, Mr Murray added, may be the result of weak salesmanship, but if the accountant was to help management to fulfil its future requirements and accept the challenge offered, an effort must be made to correct it.

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**THE INSTITUTE OF COST AND WORKS
ACCOUNTANTS****London Cost Conference**

'Planning for the trade cycle' was the theme of a London Regional Cost Conference held last Saturday by The Institute of Cost and Works Accountants at the Connaught Rooms. The conference was opened by Mr F. M. W. Hird, F.C.A., F.C.W.A., President of the Institute, and papers were presented on 'National policy and Government action', by the Rt. Hon. Harold Wilson, O.B.E., M.P., and 'The cost accountant's role', by Mr D. A. J. Manser, F.C.A., A.C.W.A. Colonel A. E. Young, C.M.G., Commissioner of the City of London Police, was the guest speaker at the conference luncheon.

In his paper, Mr Harold Wilson said that the problem of national policy and Government action in relation to the trade cycle was essentially different today from that before the war. Then it was a problem of under-demand and of the need to prime the pump by Government investment and other forms of stimulating demand. The post-war cycle, however, had operated against a background of more or less full employment, of persistent inflationary tendencies, and of acute vulnerability in the overseas financial position. Cyclical crises had therefore manifested themselves in terms of a run on currency reserves, and in recent years the big swings of investment and business optimism had been to a large extent the consequence of 'lurchings' in Government policy such as the credit squeeze and tax changes. Dominating any consideration of this policy, said Mr Wilson, was the question whether an over-reliance on monetary instruments of control had not aggravated the instability. Associated with this were two further questions. How far had deflationary measures designed to hold down production and investment themselves contributed to the regularity and severity of foreign exchange crises through their effects on productivity, and the resultant failure to broaden and strengthen the country's industrial base? And how far had sudden measures of reflation themselves been responsible for the subsequent export-import crisis.

Mr Manser, in his paper, said that for a business to be successful, in any economic climate it was necessary for all the functions - designing, selling, buying and converting of materials, services and administration - to be in balance. This could only be achieved if each of these was geared to some forward plan. When planning, Mr Manser said, a management must consider the advantages of flexibility, i.e. not having all one's eggs in one basket by obtaining diversification of products. It was possible that a trade cycle in one product could not affect another, and management could, therefore, switch resources to meet changing circumstances.

**THE CHARTERED ACCOUNTANT STUDENTS'
SOCIETY OF LONDON**

The following meetings of the London Students' Society will be held during next week:

Tuesday, 5.30 p.m. at the Chartered Insurance Institute 20 Aldermanbury, EC2: 'Mock Company Meeting.'

6 p.m. at the Institute: Debate on the motion 'This house views the future with despair.'

Wednesday, 5.30 p.m. Lecture and demonstration of punched-card accounting (limited number).

6.15 p.m. at Luton: Lecture on 'Auditing machine accounts', by Mr J. Kennedy Melling, F.C.A., F.T.I.I., F.R.ECON.S.

Thursday, 5.15 p.m. at Winchester House, Old Broad Street, EC2: Introductory course lectures on (1) 'Taxable income', by Mr J. Kennedy Melling, F.C.A., F.T.I.I., F.R.ECON.S., and (2) 'The law of sale of goods', by Mr R. Lowe.

Saturday, '59 Club' Skittles match.

2 p.m. at Southend: Lectures on 'Income tax', by Mr J. Kennedy Melling, F.C.A., F.T.I.I., F.R.ECON.S., and on 'Strange words and abbreviations', by Mr Eallett.

THE ACCOUNTANTS' DIARIES

The Accountants' Diaries for 1962 now on sale contain completely revised information in the foolscap desk diary and the pocket diary.

The foolscap diary, which has three days to a page, includes information on professional fees, Inland Revenue duties, limited companies, profits tax, exchange tables as well as many other sections of use to the profession. Similar information is contained in the pocket diary, together with London, Edinburgh, Belfast and other provincial street maps.

The foolscap diary and the octavo desk diary (which is without information pages) again appear in the improved covers of attractive royal blue cloth with white lettering introduced last year.

The prices of the diaries, and of pocket refills and cases (including postage and purchase tax) are as follows:

<i>No. 3A Desk Diary</i> (foolscap)	20s 0d
<i>No. 6 Desk Diary</i> (octavo)	13s 9d
<i>Pocket Diary</i>	19s 0d
<i>Pocket Diary</i> with separate information	21s 6d
<i>De Luxe Pocket Refills</i> . Three days on a page with all information	16s 0d
<i>De Luxe Cases for Refills</i> . Good quality leather, lettered in gold on front, lined with silk	18s 0d

The diaries are obtainable from the publishers, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

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New Taxes for Old

WHATEVER may be the public's views on the Government's economic record over the past decade, in one respect at least that policy has been remarkably consistent. Ever since MR BUTLER revived the use of Bank rate in November 1951, successive Chancellors, confronted with successive balance of payments crises and pressure on the gold and dollar reserves, have not hesitated to employ a penal Bank rate, and to reinforce the structure of higher interest rates with a policy of credit restriction. Despite the Radcliffe Committee's critical review of the efficacy of monetary policy in resolving Britain's basic economic problems, the faith of Conservative Chancellors in the monetary weapon has apparently remained unshaken. Nevertheless, it is becoming increasingly apparent that the policy has exerted a serious deflationary effect on the British economy. Many critics are of the opinion that less reliance on the monetary weapon, coupled with a revival of budgetary and fiscal policy, might produce better results.

Some evidence that MR SELWYN LLOYD himself may be coming round to this point of view is to be found in his Budget statement last April which forecast, as MR PAUL CHAMBERS recently noted, the first overall surplus since the war. The actual surplus, however, is not so important as the way in which it is achieved. Unfortunately, the scope for a flexible fiscal policy, as was visualized by economists, for the maintenance of economic stability is absent. Given the post-war labour market characterized by over-full employment, increases in outlay taxes designed to cut back consumption in the private sector in order to stimulate exports tend merely to generate renewed wage demands. Likewise, the level of spending in the public sector of the economy - despite official assurances - continues to rise. Thus hopes of further incentives to labour at all levels in the form of lower direct taxation are dashed.

The fact of the matter is that the United Kingdom has not so far adapted its fiscal structure to the needs of an economy dominated by over-full employment and inflation, from which the balance of payments problem stems. The need for a flexible fiscal policy was implicit in MR MACMILLAN's observations on the unwillingness of the Government to intervene in the economy to the extent of imposing extensive economic controls. In a free economy, which suffers from an inherent instability by virtue of its dependence on overseas markets, the only weapons of economic direction are monetary policy and fiscal policy. They are not independent of one another; they must be used in conjunction. At present, monetary policy alone is not able to force manufacturers to divert more

of their output into export markets as long as the domestic economy remains buoyant. Such a diversion is only achieved – and then only in part – when the depression in the home market has gone further than the economy's needs in investment and higher productivity would require.

What is needed at the present time is a fundamental re-casting of the tax system whereby taxes on incomes can be reduced, so as to provide a real incentive at all levels to greater production and at the same time ensure that private spending as opposed to saving incurs heavy taxes. During the debate on the 'little Budget' last July, a member of the Opposition commented on the CHANCELLOR's references to the technical difficulties that a tax on capital gains would encounter. He pointed out that what the average worker could understand was not the complications, but the fact that a large minority of wealthy people were apparently able to supplement their incomes by further tax-free benefits. It is a good old dictum that a tax must not only be fair, but it must seem to be fair. In this respect, as far as public opinion is concerned, the income tax fails. It is much to be hoped, therefore, that the limited capital gains tax, which the CHANCELLOR intends to introduce, will meet the public's need to see fiscal justice done.

As outlined by the CHANCELLOR, the new tax is not, strictly speaking, a tax on capital gains at all; it is a tax on capital profits from certain types of dealing which have hitherto not been regarded as being in the nature of trade. A capital gains tax proper would necessitate a re-definition of our present concept of what constitutes income for tax purposes. It would mean that any gain from the sale or exchange of any type of asset would be aggregated with the taxpayer's other income in order to arrive at his taxable income, and charged to tax at the appropriate marginal rate. As the Inland Revenue memorandum on capital gains to the Royal Commission of Taxation revealed, 'the most willing co-operation from taxpayers (in returning their gains) would not be forthcoming'¹ and when administrative considerations are taken into account, such a tax would have to be restricted to particular classes of taxpayer. For example, the tax might only apply to surtax payers, or to those owning capital assets which total more than, say, £10,000.

Alternatively, but not so satisfactory from the Inland Revenue point of view, only gains in excess of, say, £250 would be charged to tax.

There is no doubt that even the CHANCELLOR's proposal, which seems to imply a substantial widening of Case VI, will have to adopt some arbitrary solutions to many of the intractable problems that arise in any attempt to charge capital gains. It may well be that many taxpayers, who in future will come within the scope of the new tax, will have cause to feel aggrieved.

To do all this, however, with no other benefit than a negligible addition to the revenue seems pointless. If the public is convinced of the CHANCELLOR's desire to achieve fiscal equity, then the way is open to him to put forward proposals for a revision of the tax structure. The basic need is to shift the burden of tax from direct taxes to indirect. In the past such a proposal would, as no doubt it will now, if ever it is made in the House, attract the criticism that it is utterly inequitable. It is true that in the past indirect taxes, which fell largely on the necessities of life, still further depressed the living standard of the lower income groups. One has only to look at the distribution of household expenditure at the present time to realize how little relevance the old criticism has to the new society. The latest family expenditure survey for 1957-59² shows that the average household is spending more on clothing than on rent, and nearly the same again on travel and motoring. Aggregate outlay on tobacco and alcohol exceeds that on housing. Under the 1914 cost-of-living index, only 4 per cent of household expenditure was on sundries; today the figure is ten times as great.

The rising trend of Government expenditure must be met in such a way that it does not depress incentive, but spending. By stimulating personal saving, the current cost of capital for investment purposes could be reduced. Not all of this can be done merely by revising the tax structure. Clearly, given some increase in indirect taxation, slightly larger tax concessions or family allowances must be given to large families. Likewise, the principle of the State pension must be reviewed. In short, what is needed is a complete review of policy in respect of current spending on the Welfare State to determine whether or not a greater degree of self-financing is possible.

¹ Annexe to Cmnd. 9474, paragraph 22.

² See *The Accountant*, November 11th, 1961, page 628.

Revenue Accounts and Back Duty

THE Appropriation Accounts of the sums granted by Parliament for the three Revenue Departments for the year ended March 31st, 1961, were published early this month.¹ With them was published the report of THE COMPTROLLER AND AUDITOR-GENERAL on these accounts and on certain store accounts.

As usual, the COMPTROLLER draws particular attention to the subject of fraud and evasion in relation to taxes on income and profits. The results of the investigations completed in the five years to March 31st, last, were as follows:

Year ended March 31st	Number of cases	Total charges raised £	Penalties included £
1961	9,752	12,905,544	5,549,820
1960	13,734	19,642,073	8,491,884
1959	10,757	18,013,864	6,792,470
1958	14,593	21,529,264	9,495,437
1957	15,511	22,549,246	9,426,295
1956	16,116	22,661,950	8,490,973

Local Inspectors settled in the last year a number of minor cases which produced a total of £555,390 in addition to the above figures.

The report says that the reduction last year was due mainly to a postponement of negotiations for settlements pending the introduction of the major changes in the penalty provisions made by the Finance Act, 1960. Behind this laconic statement lies the remarkable litigation in *C.I.R. v. Hinchy* (37 A.T.C. 357; 38 A.T.C. 197; 39 A.T.C. 13). In his 1952-53 return MR HINCHY showed his deposit interest as £18 6s, whereas the correct amount was £51 5s 9d. The Inland Revenue asserted that he had incurred a penalty of £20 plus treble the amount of the tax on his whole income. Unlike the majority of his fellow taxpayers who had been in a similar situation, MR HINCHY refused the Inland Revenue's pressing invitation to pay penalties without putting them to the trouble of bringing an action. Accordingly a writ was issued in 1956. MR JUSTICE DIPLOCK held in December 1958 that only £20 was payable. The Inland Revenue fared a little better in the Court of Appeal but they had to go to the House of Lords to establish that the law was as harsh as they said it was. The principal result of their pains was

that the unfavourable publicity resulted in the new legislation in 1960 which considerably softened the penalty sections but which gave extended powers to raise assessments in neglect cases for years normally out of date. The new sections do not make easy reading and it is doubtful whether many settlements were agreed in the period between the passing of the Finance Act, 1960, and March 31st, 1961. It is clear that there will be a flood of settlements in the current year.

It is not only interest which tends to escape tax. The COMPTROLLER recalls that the Committee of Public Accounts (Session 1953-54) referred to losses of revenue resulting from the non-disclosure of fees etc. which were not covered by the then legislation as to disclosure of wages paid to employees. Section 20 of the Finance Act, 1956, gave powers to the Inland Revenue to obtain returns of fees, commissions, etc., of £15 or more, by serving notice on the payer. The report says that comprehensive application of these provisions has been confined to the entertainment and literary worlds. The information is normally forwarded to a clearing house in London where there is an index of payees, showing their 'home' tax districts, so that the information can be passed on to the appropriate quarter. When the COMPTROLLER's staff examined the arrangements in July last this clearing house had received notifications of some 758,000 individual payments of which 187,900 were made in 1959-60. There were 121,200 names in the index, 21,300 having been added in 1960-61. It had been necessary to refer some 112,600 notifications to local tax offices to establish where the taxpayer (or avoider) was dealt with. There had been a failure to trace 6,400 payees. The Inland Revenue reported that many references related to small payments, hardly worth pursuit, but it was intended to follow up the larger payments more closely.

The COMPTROLLER says that the Inland Revenue frequently failed to press for details of payments to sub-contractors. However, in one area a comprehensive use of Section 20 powers had produced many new taxpayers. Nevertheless, the Inland Revenue did not think that a wider application of Section 20 would afford a practical solution to the difficulties which often arise in this field.

¹ H.M.S.O. 3s net.

Growth Outline for Scotland

THE recent economic plan for Scotland put out by the committee under the chairmanship of Mr J. N. TOOTHILL, C.B.E., F.C.W.A., is a unique document.¹ The chairman himself is an engineer turned accountant (itself not a common but a stimulating combination); there was one other accountant on the committee, Mr JAMES G. S. GAMMELL, M.B.E., C.A., a Scottish professor of political economy, the others being mostly men of academic education with experience at board level of running one or more companies, some of them very large organizations.

The committee made an entirely new approach to Scotland's economic problems, starting from the point that Scotland's problems are based on the fact that the country is short of growth industries (that is, those which in the long run in the twentieth century can expand rapidly, attract ancillary industries quickly and so stimulate a high rate of economic development) and is not basically bedevilled with an unemployment problem as such. This has led to an analysis and a set of prescriptions which are relevant not only for Scotland but also for other parts of the United Kingdom.

This report is a constructive and imaginative document. It is also a controversial one which is likely to stir up some hostility before it becomes history. It has already been said since the report emerged last month that it has killed off some myths in Scotland. These are not just economic myths – they go deeper than that; some of them are folk myths. The Scot for all his intellectual power and spiritual integrity (as a type) is withdrawn and proud. The folktales of his youth tell him to beware of the English and their ways and to respect the discipline of poverty. The Scot who looks sentimentally towards his Highland hills simultaneously turns his back on England – and beyond. There is a Scottish saying: 'Wha's like us? Damn few and they're a' deid.'

To this heritage comes the twentieth century, the European Common Market – and the Toothill report; and the message of this last will not be easy to swallow. For the report has precious little

to say about the Highlands, or about the possible virtues of home rule as an economic stimulant. It talks about the need for closer contacts with London (an emotional theme indeed for those who take it out of its context). There are excellent recommendations about improving Scotland's communications with the south and continental Europe and more than a hint that the industrial belt of central Scotland could with advantage work closer with the north of England.

Not only the nationalists may look askance. There is scant comfort for the nationalizers either. The chairman himself has said that there would have been no unanimity if there had been a trade union representative on the board. For the committee found no solution in the creation of public boards, taking work to the worker or giving blood transfusions to dying localities.

The flavour of this report is change, speed, flexibility and vigour. To support the committee it must be said that South Wales, with a similar problem, is finding such an approach exceedingly rewarding. Perhaps 'enterprise', used in the best sense, is the word to describe it. This report does not want Government regional development policies to prop up old industries but to help new, vigorous ones. A specific recommendation at this point to help modernization by the continuation of investment allowances, shows the influence of the accountants.

Recommendations about loans and grants are down to earth and realistic. Some speculative building of offices in promising localities is suggested. More new towns are wanted, with greater freedom to negotiate renting terms of factories with industry, and the urgency of attracting the science-based industries, as the committee calls them, and engineering-based consumer durable industries is underlined.

Improved communications are called for, not only because Scottish business men need better facilities for making personal contacts all over Europe, but also because the committee found that Scotland's competitive disadvantage is often due to unreliable deliveries in and out, rather than to comparatively higher costs of production than in other areas.

¹ *Report on the Scottish Economy* published by the Scottish Council (Development and Industry), 1 Castle Street, Edinburgh 2. Price 25s (postage etc. 2s extra).

Scottish banks are asked to give more term loans and much is said about the Government helping Scottish research and development in industry, though several of these recommendations have an application elsewhere in Britain.

Education and training in the widest sense receive a great deal of attention. The committee was clearly impressed with the English sixth-form emphasis on specialization. Its recommendations, however, also cover more vocational training for younger pupils not going on to 'A' levels, reforms in technical education and, of first importance, a review of the entire apprenticeship system. Scottish industry is seriously hampered by a lack of men in certain skilled trades. More and better management training is also wanted, including greater attention to industrial relations. There is special emphasis in the report on the role played by accountants in Scottish business. A plea is made for giving them more management training and for showing more attention in general to cost accounting. Out of eighty-one recommendations, some are thirty-nine on education, training and management.

There are stern words for subsidized rents in overcrowded and dying towns. These have put a premium, the committee think, on inflexibility of industry and immobility of labour. Better trained men going to new jobs in new industries in new towns is the picture painted for Scotland's future.

One of the group of recommendations on which it may well be most difficult to get agreement and action is that concerning Government administration. The committee wants a new department to bring together the present planning functions of Scottish Government departments and this should have an economic advisory unit. It sees no need for an additional senior ministerial appointment for Scotland nor does it recommend a transfer of departmental powers from Great Britain to Scottish level, although the committee would welcome, it seems, an up-grading in many respects of the initiative and authority of the Scottish section of the Board of Trade.

It will take a national upsurge to realize the aims set by the committee's report. The rest of the United Kingdom has a vested interest in seeing Scotland accept the challenge and win.

Case Law Interpretation

by T. J. SOPHIAN

FOR a proper understanding and interpretation of the principles established by tax decisions, there are a number of important points which have constantly to be borne in mind. Otherwise a case which may appear to be relied on as an authority may prove to be misleading, and the ship that is being navigated is found to be considerably off course.

Hierarchy of the Courts

As far as tax law is concerned, the hierarchy of the judicial system is as follows:

The Commissioners

Appeals come, in the first instance, before the Commissioners, Special or General, and in the determination of such appeals, the Commissioners are exercising the functions of a Court.

But the Commissioners may also exercise quasi-judicial functions in the exercise of which, be it noted, they do not constitute a Court at all. Thus if they make or refuse to make a surtax

direction against a company, their determination can be challenged, not by way of appeal, but by way of application to the Divisional Court for the grant of an order of certiorari or mandamus. These two prerogative orders of certiorari or mandamus, together with the order of certiorari, constitute the prerogative jurisdiction vested in the High Court, by which the decisions or the acts or omissions of bodies exercising quasi-judicial functions can be challenged.

As a recent instance of an application for an order of mandamus, the case of *R. v. Special Commissioners; ex parte Linsleys* (37 A.T.C. 26; 37 T.C. 700) may be cited. In that case the company, in order to cut down its liability for profit tax, sought the making of a surtax direction by the Commissioners, so that it could advantageously exercise an election under Section 31 (3) of the Finance Act, 1947. The point of law, in effect, raised there was whether or not profits tax was first deductible for the purpose of determining the extent of the available income of the company. The House of Lords held that the profits

tax was first deductible and as that left no balance of profits, there was no income in respect of which a surtax direction could be made.

To take another instance, in *R. v. St George, Hanover Square, General Commissioners; ex parte Hood Barrs* (26 A.T.C. 217; 27 T.C. 506), the taxpayer challenged a certificate authorizing repayment of tax because of a loss, on the ground that the loss had been set off against earned income in the first place. For this purpose an application was made to the High Court for the prerogative order of certiorari to bring up the certificate so that it should be quashed and set aside, but the Court in those proceedings ruled against the taxpayer.

An order of prohibition, as the name itself signifies, would be an order to the Commissioners forbidding them to do something which was not authorized by law, such as making a surtax direction where there was no power to do so.

An appeal from the Commissioners lies only on a question of law, and the appeal is by way of case stated to the Chancery Division of the High Court.

Where a decision of the Commissioners is challenged by one of the prerogative orders – and here again a point of law must be involved – the appeal from the Divisional Court would lie to the Court of Appeal.

High Court

The High Court therefore constitutes the appellate Court from a decision of the Commissioners, whether the Commissioners are acting in a judicial or quasi-judicial capacity, as above explained, except that in the latter case the hearing is not by a single judge, but usually by three judges of the High Court.

Court of Appeal

From the High Court, whether the hearing is by a single judge by way of case stated, or by a Divisional Court as above explained, an appeal lies to the Court of Appeal.

House of Lords

Finally, with the leave of the Court of Appeal, or if they refuse leave, with the leave of the House of Lords, an appeal lies to the House of Lords, which is the ultimate appellate tribunal.

Binding Effect of Decisions

It is next important to consider how far decisions of one Court are binding on other Courts, whether

they are, or are not, of co-ordinate jurisdiction. Quite clearly a decision of a superior Court would be binding on any Court that was inferior to it.

Decisions of Commissioners are not binding on other Commissioners though they may have some persuasive authority.

The High Court

A decision of a judge of the High Court is not binding on any other High Court judge, who would constitute a Court of Co-ordinate Authority. Usually, however, where a considered judgment has been delivered on some difficult point, another High Court judge would follow that decision in a later case.

Court of Appeal

Strange as it may seem, a decision of the Court of Appeal is binding on the Court of Appeal, unless it has been overruled by the House of Lords. The reason for this rule is that the Court of Appeal is one single Court, even though it sits for the sake of convenience in divisions. Nor does it make any difference whether a decision has been given by a division of the Court (three judges) or whether it has been given by the full Court, i.e. by *all* the members of the Court of Appeal sitting together to hear the appeal.

There are three exceptions, however, to the rule that the Court of Appeal is bound by its own decisions. This point was exhaustively examined in the case of *Young v. Bristol Aeroplane Co Ltd* ([1944] 2 All E.R. 293). These exceptions are as follows:

- (1) Where there have been two previous and conflicting decisions of the Court of Appeal, in which case the Court of Appeal in a later case must necessarily elect which one to follow.
- (2) Where the decision of the Court of Appeal conflicts with a decision of the House of Lords.
- (3) Where the decision in question of the Court of Appeal has been given *per incuriam* as it is expressed.

A decision will be regarded as having been given *per incuriam* where it was given in ignorance of some inconsistent statute or statutory provision, or some binding judicial authority to the contrary.

House of Lords

Decisions of the House of Lords are binding on the House of Lords, even though they are manifestly wrong in law. The error can only be put right by Act of Parliament.

Scottish and Irish Decisions

Decisions of the Scottish and Irish Courts are not binding on the English Courts though undoubtedly the greatest deference will be paid to them.

Appeals on Questions of Law

As already stated, appeals from the Commissioners are only on questions of law. What, however, should be noted is that an appeal against findings of fact may constitute an appeal on a question of law. The House of Lords decision in *Edwards v. Bairstow and Harrison* (34 A.T.C. 198; 36 T.C. 207) is perhaps the most important and classic guide on this point.

The question there was whether the Commissioners were correct in arriving at a finding that the taxpayers had not engaged in trade in the purchase and subsequent sale of certain spinning plant. The Commissioners had apparently been influenced, *inter alia*, by the fact that the transaction was an isolated one.

Prima facie, the finding of the Commissioners was one of fact, but the House of Lords nevertheless ruled that the question involved on the facts was one of law, and they set aside the Commissioners' finding and held that the taxpayers were engaged in a trade or an adventure in the nature of trade.

The grounds of the House of Lords' decision are of considerable interest and importance. In their lordships' opinion, a pure finding of fact could be set aside on the grounds that the Commissioners had acted without any evidence to support this finding, or on a view of the facts which could not reasonably be entertained. For this purpose a distinction was to be made between the 'primary facts' on the one hand and, on the other, the inferences of fact drawn from those primary facts.

Thus the primary facts in the above case included the facts that the taxpayers had put money into the purchase of a large quantity of machinery, that they had no intention of using the machinery as such, that they were not purchasing it as an income-producing asset or for the purpose of consuming it or for their own pleasure or enjoyment, but that on the contrary they had no intention of retaining their purchase at all, having had the intention of selling the machinery even before they bought it. The inference of fact to be drawn from these primary facts was that the taxpayer had organized a commercial deal in second-hand plant and that they were accordingly engaged in an adventure in the nature of a trade.

The primary facts all pointed to one inference, viz. that a trade was being carried on. The finding of the Commissioners to the contrary could not therefore be accepted because they had come to a conclusion without evidence to support it, or which on the evidence no reasonable person could have arrived at, or because they had misdirected themselves on a point of law. Therefore it was a question of law whether their finding was correct.

It was not a case where all the proved and admitted facts warranted equally a determination either way, so that it was a matter of degree only, in which case the inference or conclusion drawn could properly be regarded as an inference of fact, which could not be disturbed.

Ratio Decidendi

When reading a tax report it is exceedingly important to analyse the case with great care in order to extract from it the exact point of principle on which the case was decided, in other words, the *ratio decidendi*. It is only the *ratio decidendi* which has binding effect, and all other pronouncements whether in the course of argument or in the course of judgment itself not essential in enabling the Court to arrive at the particular decision, are to be treated as *obiter dicta*, which, however, though not binding, may still bear a certain amount of persuasive force.

Going back to the *Edwards v. Bairstow* case, for instance, the question may be posed – What principles led the Court to the conclusion that there was a carrying on of a trade?

It appears that among the principles established by that case are that (a) organization is a characteristic of an adventure in the nature of trade, and (b) an isolated transaction may be an adventure in the nature of trade.

The recent Privy Council case of *Ralli Estates Ltd v. East Africa Commissioner of Income Tax* (40 A.T.C. 9) may also be referred to. In this case, payments made for the right of occupancy of two sisal estates for a period of ninety-nine years were held to be capital payments and accordingly not deductible expenditure.

The reasons for this decision and the *ratio decidendi* appear to be as follows: the payment was a capital one, because it was made for the acquisition of a long enduring interest in the estates, and not for the use of the land or the actual leaf potential. Had the lease been for a short term of about seven to eight years, which is the average life of sisal plants, the position might have been otherwise, since it might then have

been urged that the payment was for the use of the land itself.

From this case other principles emerge, though these have not the same force as a *ratio decidendi*, for they were not essential to the determination arrived at. Among these collateral principles mention may be made of the following: (a) for the purpose of determining the true nature of a transaction (whether it is capital or revenue) one is entitled to look at the course of the negotiations and the formal contract finally entered into; (b) the character of capital or revenue payments is not altered by the fact that the payment is made in one lump sum or in instalments.

Determining True Nature of Dicta

In statements made by judges in the course of their judgments, it may not always be an easy matter to determine their true nature, i.e. whether they are to be regarded as *rationes decidendi* or merely *obiter dicta*. The case of *Re Borthwick* ([1948] 1 Ch. 645; 2 All E.R. 636) affords an interesting illustration of this point.

It is a characteristic feature of proceedings by way of originating summons in the Chancery Division that they are tried on affidavit evidence and not usually by oral testimony of witnesses called to give evidence in Court. It is further a feature of such proceedings that the parties are not entitled to inspection and discovery of their opponents' documents, however material these may bear on the issues raised in the case. The question was raised recently whether this principle applied to all proceedings by way of originating summons in the Chancery Division, irrespective of the special statute under which they were being brought.

In his judgment in *Re Borthwick*, Lord Greene, the then Master of the Rolls, said:

'In the procedure by originating summons where the issues are not defined in any way in which they are defined in pleadings, where there are in general affidavits in which the relevant evidence appears, affidavits which can, if necessary, be cross-examined to, there is really no room for the application of the ordinary rather strict rules relating to discovery which takes place in ordinary actions conducted with pleadings. I think . . . that discovery in proceedings in the Chancery Division by originating summons ought only to be ordered in very special cases where the facts are such as to justify such an order being made.'

Now at first sight these dicta appear to be in the nature of *obiter*, but in a recent case before

the Court of Appeal, the Court held that they laid down a principle of general application and that they were binding on the Court in the case before them, which was one in which a new tenancy was being claimed under the Landlord and Tenant Act, 1954; an Act, moreover, which was passed some sixteen years later and which could hardly be said to have been in the contemplation of the Court of Appeal in 1948, when the *Borthwick* case, under an entirely different statute, was decided.

Obiter Dicta

It becomes necessary, therefore, in every case to separate the chaff from the wheat, and to determine whether dicta lay down a binding principle or a *ratio decidendi* on the one hand, or whether on the other hand, they are merely in the nature of *obiter*.

Obiter dicta, of course, may have very persuasive force and may be regarded as binding. That they may, however, be dangerous to follow and can, in fact, be misleading, is well illustrated by the recent case of *Thomson v. Moyse*, in which the House of Lords held, overruling the lower Courts, that the taxpayer by drawing a cheque on his account with an American bank and delivering it to the payee, a bank in London (instead of handing the cheque to the bank for collection), had received his foreign income in the United Kingdom.

The lower Courts had relied on certain dicta in earlier cases in the House of Lords,¹ but these the House held, in *Thomson v. Moyse*, not to be accurate. These dicta suggested that in order that there should be receipt, there should be an actual bringing in of the income to the United Kingdom—a principle which was not accepted by the House in *Thomson v. Moyse*.

It may be well appreciated, therefore, how difficult the task can be of sifting dicta and weighing them up accurately.

In conclusion, one piece of advice that may be given to all whose practice lies in the sphere of taxation, is not to confine one's learning to tax law and tax law alone. The wider the net of knowledge of the law in general is spread, the easier should be the task of grasping and understanding the principles laid down by tax decisions, the number and importance of which are increasing year by year.

¹ By Lord MacNaghten in *Gresham Life Assurance Society v. Bishop* (4 T.C. at p. 473); by Lord Dunedin in *Scottish Widows Fund Life Assurance Society v. Farmer* (5 T.C. 502); by Viscount Cave in *Foulsham v. Pickles* (9 T.C. 261); and by Lord Cohen in *C.I.R. v. Gordon* (33 T.C. at p. 237).

Lloyd's — a Unique Institution

An address by Mr G. Ewart Thompson, Chairman of Lloyd's, at a luncheon meeting of the London and District Society of Chartered Accountants held on November 20th.

THERE can be little argument with the proposition that Lloyd's is unique, at any rate in the insurance world, as regards its origin and evolution. Such an institution could not have been thought out in cold blood. In common with so much in the 'British way of life', to use a popular but pompous phrase, it has grown up over the years by the combined work, thought, energy and flair for improvisation of those connected with it.

May I therefore just sketch in as briefly as possible the history of Lloyd's, since that is an essential background to any understanding of a concern which I suppose it is fair to say carries the most widely known name in insurance the world over.

Early Beginnings

In 1688 a man named Edward Lloyd was running a coffee house in Great Tower Street. Being situated near to wharves and warehouses, he numbered among his customers many ships' captains and owners, merchants and people with money to adventure.

Lloyd had the inspiration that it would greatly increase and consolidate his trade if he could supply special facilities to assist his customers in their business connected with ships. So, in addition to providing quill pens, ink, paper and so on, he began to gather early shipping news by means of runners to and from the docks, both in London and elsewhere, by gossip and letters from ship-masters and so on.

He published this hot news in a broadsheet called *Lloyd's News*, and although the paper did not last long Lloyd had, quite unknowingly, left a footprint in the sands of time, because after his death in 1713, the coffee house, which had moved to Lombard Street in 1691, continued to be called Lloyd's Coffee House.

When in 1734 the shipping newspaper was re-established on what was to prove a permanent footing, it was called *Lloyd's List*, as it is today. The paper has appeared ever since and is in fact the oldest daily newspaper published in London except for the official *London Gazette*.

Lloyd's Coffee House moved to Pope's Head Alley in 1769, and to the upper floor of the Royal Exchange in 1774. At this point, it became officially 'Lloyd's', although to many, including the Admiralty, it continued to be Lloyd's Coffee House until well into the twentieth century. It had been lifted out of the casual coffee house atmosphere by a man of great courage and enterprise, one John Julius Angerstein. He set to work to organize it, and a committee was elected by the insurance fraternity among the frequenters of the coffee house.

Lloyd's, as it may now reasonably be called, remained in the Royal Exchange until 1928, except

for the period when the Exchange was being rebuilt after the disastrous fire of 1838.

A great expansion in business occurred after the First World War and Lloyd's was soon bursting at the seams as far as accommodation was concerned in the Royal Exchange, as I can testify very feelingly.

In 1928 we moved to the first home of our own in the new building we had built on the site of the old East India Company's premises in Leadenhall Street. This building was opened by King George V.

The new building was regarded by the usual pessimists as a white elephant, which would soon sink us without a trace. But on the contrary, by 1939 we were once more getting uncomfortably congested. The Second World War brought a respite as business was static and staffs much reduced by National Service. But by 1950 the position was becoming quite unbearable. The density of population in the 'Room' was already three times as great as its designers had visualized, and we were reaching the point of being unable to accommodate a new syndicate.

The momentous decision was taken by the members in general meeting in 1950 to proceed to build yet another new Lloyd's on the bombed site on the other side of Lime Street.

The foundation stone was laid by Her Majesty the Queen in 1952, and the building was opened by Queen Elizabeth, the Queen Mother, in 1957.

We moved in at Easter, 1958, and have already taken into use a considerable amount of the space available for expansion.

Largest Business Room in Europe

The new 'Room' occupies the whole ground floor between Lime Street and Billiter Street, and in addition there is a gallery over a large part of the 'Room' which houses the non-marine market. It is, I believe, the largest single business room in Europe.

The organization which has evolved from that strange beginning now has over 5,000 members and a net premium income, after deducting brokerage etc., of something between £250 million and £300 million, more than half of which comes from overseas, much of it from the U.S.A.

Enough of history. Let me now attempt to indicate the method of operation, which again has no parallel anywhere else.

First of all I must make one thing clear, in case anyone is under any illusion — Lloyd's is not an insurance company. It is merely a market like the Stock Exchange — a place where certain people come together to do a particular sort of business.

Lloyd's as such runs no insurance risk at all, but the underwriters at Lloyd's do so, and with a capital

R, since the great bulk of what they underwrite is retained net.

The whole basis of operation is, as it has always been, that each individual member has unlimited liability for his own personal insurance commitment.

Of course, in Mr Lloyd's day, and long afterwards, the individual member used to subscribe his own line on a slip or policy, but as the business grew in volume such a method was quite hopeless, and the modern syndicate idea was introduced. Under this method, the individual liability of the member 'each for himself and not one for another' was still maintained, but the members got together in groups and employed someone to do the underwriting for them while they got on with their various pursuits, useful or otherwise.

In the early days of syndicate operation, the man so employed was actually the underwriting agent, and he personally, with the aid of a small staff, did the underwriting for his 'Names,' kept the books, paid the claims, and in due course rendered account of his stewardship to his 'Names' and paid out the profit or collected the loss on the year's operations.

This situation still exists in some syndicates, though the number is reducing. It is more common today to find the underwriting agent acting in a managerial capacity and employing a salaried underwriter and staff to do the technical work of underwriting and claim settling on behalf of the whole syndicate.

In line with the modern trend towards bigger and bigger units, it is now becoming more and more common for syndicates in turn to group themselves together in the hands of an outfit which might be described as a managing agent.

In spite of all these changes of method, the basic fact of individual personal liability up to the limit of the member's resources exists with as much force as in the days of Edward Lloyd.

Chain of Security

In days long gone by, no doubt, this personal liability in an entirely unorganized market, must have led to many failures, with consequent disappointment to policy-holders with legitimate claims. This could not be allowed to continue if Lloyd's was to establish itself in the forefront of the London insurance market and, having done so, to maintain its position.

As a result, a lengthening and strengthening chain of security has been forged over the years to ensure that any failure of a particular member (which might of course be caused by other than his insurance activities) should not react upon legitimate claimants under Lloyd's policies.

As chartered accountants, I am sure you will be glad to know that in our opinion the most vital link in the chain is the annual compulsory audit by a member of your profession, drawn from a panel of accountants who are experienced in this rather specialized work.

It is a fact that as the nature of Lloyd's business

changes with the years, this audit is being continually tightened up as are the other security requirements.

One of our difficulties at Lloyd's has always been the problem of building up adequate reserves out of profits with which to meet abnormal losses in a bad year without recourse to a member's private fortune. This difficulty arises primarily from our position as individual traders and our consequent liability to surtax.

Tribute to Uniqueness

It is perhaps a further tribute to our uniqueness that our plight was first recognized and, what is more, alleviated, by no less a person than a Socialist Chancellor of the Exchequer - Sir Stafford Cripps. Having investigated our make-up and method of operation, he said that he thought Lloyd's was an outstanding example of genuine private enterprise which he would be happy to try to assist. As a result, we were given the opportunity of building up reserves to a certain degree out of profit after paying income tax but before surtax. This has been of very great benefit to prudent 'Names' and the reserves so built up since Cripps' day now amount to many millions. I may say that the Inland Revenue had the last word in pointing out that if we asked to be taxed to some extent like companies in regard to surtax, we must also accept a certain liability to profits tax. This is not a crippling matter, however, as not many of the 5,000 members make enough profit to be worried about that.

Apart from the feature of unlimited personal liability, there are a good many other aspects of the operation of the Lloyd's market which are quite unique in the insurance world.

The Lloyd's underwriter deals only with brokers, and Lloyd's brokers at that, whose duty is to represent the assured and secure for him the most favourable terms, having regard to all the circumstances. Theoretically, the underwriter never sees his assured, although sometimes, in these days of rapid travel, he is shocked to find an important client from America or somewhere waiting almost literally on his doorstep when he arrives in the City in the morning.

The Lloyd's underwriter does all his underwriting in the Room in Lime Street, EC3. There are no branches; the business comes from every corner of the world to be transacted in that one Room, and that business is of every conceivable sort, except life (other than short-term).

We are not members of any tariff association and the members are quite free to quote any rate they like. Of course, there are one or two areas of the world where we have to toe the line on rates if we wish to do business, because the local authorities are afraid of a free market. Having put their domestic insurers in a straight jacket, they feel they must do the same for us. I need hardly say that those areas are not our happiest hunting grounds.

This freedom, and the flexible approach to problems which it engenders, has earned us the

reputation of being prepared to insure anything, and some of the odd little risks which my more sporting colleagues go in for sometimes bring us a certain amount of unwanted notoriety.

Lloyd's can, I think, claim to be one of the most democratic institutions to be found in the commercial world. All underwriters are equal, and in electing the Committee to manage this peculiar market, and in general meeting, the vote of the youngest or most recently elected member is just as good as anyone else's. I must admit that, when it comes to leading risks and so on, some underwriters are, as the saying goes, more equal than others; but that inevitably happens in any considerable group of men.

Certainly it is a valuable tradition which distinguishes Lloyd's from the insurance companies, that every underwriter is accessible at his 'box' to any broker, however junior, subject to the one important proviso, that the broker knows what he is talking about.

Rule by Consent

The Committee, which has very important functions in the Lloyd's world, rules largely by consent and persuasion and very seldom by direct order, even though there are some pretty drastic sanctions enshrined in the bye-laws. These, like a kind headmaster's cane, are kept in the cupboard and only produced on special occasions.

For a market, the members of which compete busily among themselves as well as with the outside world, there is a remarkable degree of cohesion and, when necessary, closing of the ranks. I have seen many examples of this during my time at Lloyd's, and it is one of the features which make it such a pleasant 'club' to work in. The personnel changes with the years, but the essential club quality remains, though as it gets bigger one inevitably finds that one knows a smaller and smaller proportion of one's fellow-members.

Each November the Committee of twelve (three of whom retire each year and are ineligible for one year) elect the Chairman and Deputy-Chairman from among their number for the ensuing calendar year, and with the growing complexity of the organization those posts are very nearly whole-time jobs. This is in a way unfortunate, since it makes it difficult for anyone to accept the invitation who hasn't a substantial organization of his own in being, capable of running his underwriting or broking business while he is otherwise engaged. This tends somewhat to limit the available candidates, in particular for the chairmanship. Changes in this respect may well be forced upon us one of these days.

The Committee, which meets every Wednesday morning, and in sub-committees on more frequent occasions, is responsible amongst other things for:

- (1) The investigation, financial and otherwise, of all candidates for underwriting membership, and the holding in trust of their underwriting deposits after their election.

- (2) It is responsible for enforcing a rigorous audit of all underwriters' accounts; and, in the light of that audit, laying down the additional financial requirements for such underwriters as have been less successful than others.
- (3) Investigating applicants for admission as Lloyd's brokers.
- (4) Representing and negotiating on behalf of the members in many official ways with the authorities at home and abroad.
- (5) Running the premises, including the underwriting room itself, and an enormous policy-signing office employing over 800 staff.
- (6) Managing the publications (still mainly connected with marine matters) which are essential to the insurance industry and are sent all over the world. These are mostly produced in the large printing establishment in the basement at Lloyd's. (It is interesting to note that, in marine insurance, the acquisition at the earliest moment of the best information still constitutes as vital a function of Lloyd's today as it did in its earliest coffee-house days).
- (7) Running a world-wide network of Lloyd's agents in nearly every port and many inland cities, through whom insurance intelligence is received and claims are paid, but no insurance as such effected.
- (8) The entertainment, on behalf of members, of distinguished visitors. A good deal of this entertainment is done at the direct request of Government departments. In view of its international reputation, Lloyd's is apparently one of the showplaces that overseas visitors like to see - another tribute, I think, to the claim to uniqueness which I am attempting to justify today.

Contributions to Britain's Commercial Life

I think it is not unreasonable to claim that Lloyd's has made some great contributions to the commercial life of Britain and far beyond.

Having laid the foundations of the marine insurance market of the world, Lloyd's broke into non-marine business in an important way towards the end of last century. Their uninhibited and flexible outlook enabled the non-marine underwriters to pioneer a number of new forms of insurance - burglary insurance, householders' comprehensive, jewellers' block. All risks on private jewellery and earthquake insurance were the offspring of fertile minds at Lloyd's.

Perhaps the most epoch-making event in non-marine insurance in modern times was the granting by Mr Cuthbert Heath of the first profits insurance. That was something which according to his company friends was going to ruin the business of fire insurance. Mr Heath replied that he did not propose to insure anyone where there was a moral hazard. Today, as many of you would agree with enthusiasm, profits insurance is a corner-stone both of commerce and of the practice of numerous chartered accountants.

I don't believe Lloyd's has altered in any essential characteristic; it is basically as unique as it has

ever been; but we seem to find more ground these days on which we can co-operate with companies for the good of the British market as a whole.

The field of atomic energy insurance is a good example. It was agreed that in dealing with a totally new peril such as is introduced by atomic energy, where there was no past experience and no one could know with any certainty what the proper rates were, competition was futile in the extreme. The whole of the London insurance market got together and by pooling their resources succeeded, not only in providing for the special needs of the vast new atomic power stations to be erected for the Central Electricity Generating Board, but made available a valuable capacity to many overseas countries faced with the same problem.

It is today a fact that no important atomic project

can be insured anywhere without a very substantial part of it being covered in the British market, which thereby maintains considerable control over rates and conditions and is enabled to build up records and experience which will be of great value in days to come. No doubt in due course, in this field as in many others, we shall be competing busily with our company friends, but not until we know something more about the perils involved.

Perhaps both the companies and Lloyd's realize these days that with external competition (fair and unfair) becoming ever more keen, it is not very clever to indulge in too much internecine strife, just for the fun of it.

That is my story, very briefly told, but I hope I have demonstrated to you that Lloyd's really is unique.

Weekly Notes

Institute Luncheon Party

THE President of The Institute of Chartered Accountants in England and Wales, Mr P. F. Granger, and the Vice-President, Mr P. F. Carpenter, gave a luncheon party on December 1st at the Dorchester Hotel. The guests were: The Bishop of London, Mr Anthony Barber, Sir William Haley, Sir Alexander Johnston, Mr Geoffrey Lawrence, Q.C., Sir Basil Smallpeice, Sir William Carrington, Mr W. H. Lawson, Mr S. John Pears and Mr Alan S. MacIver.

European Company Directory

WHEN the 1961 edition of *Who Owns Whom* – a directory of parent, associate and subsidiary companies – was published earlier this year, it contained particulars of United Kingdom subsidiaries in Western Europe and the United States and of United States subsidiaries in Western Europe. As promised, a continental edition has now made its appearance which lists and cross-references companies in France, Italy and Western Germany and their subsidiary associated concerns.¹ The publishers hope in later editions to embrace the whole of Western Europe in their survey.

Whether or not the United Kingdom joins the Common Market, the value of such a work is apparent and its usefulness will increase as its scope extends. Furthermore, it is topical as well as timely because the information given is believed to be correct as at October 1st, 1961. This up-to-dateness reflects great credit both on publishers and printers. Far from having the appearance of a hurried production,

¹ *Who Owns Whom* Continental Edition (France, Italy and Western Germany) 1961-62. (O. W. Roskill & Co (Reports) Ltd, London. £4 4s net.)

the standard of typography is high and the layout and design of the directory are almost impeccable. The only improvement that might be suggested is that the various sections could be made more readily distinguishable by page headings, marginal references or intersticed leaves of different colours with, possibly, tabs to indicate 'where' as well as 'who' and 'whom'.

Revenue Reply to Criticisms

THE Seventh Report of the Estimates Committee, Session 1960-61, was devoted to Inland Revenue organization and its criticisms of that department were the subject of a leading article in our issue of August 5th last. The Estimates Committee has now reported to the House of Commons some observations which the Revenue has made on the criticisms (*Third Special Report of the Estimates Committee, 1961-62, H.M.S.O. 8d*).

The observations explain that the difficulty of costing the process of collecting Schedule A liabilities lies in the fact that many Schedule A assessments are taken into account in P.A.Y.E. codings or in repayment claims. The Inland Revenue welcomes the suggestion that assessing functions be transferred from the General Commissioners to Inspectors, but as regards the suggestion that the assessing functions of the Inland Revenue in profits tax should also be transferred, the department merely says that the change would require legislation and the suggestion would be brought to the notice of Ministers.

There is a welcome announcement that the Inland Revenue has set up a committee to review the content and design of forms. The question of decentralizing surtax is also to be considered.

The Revenue Must Keep Their Word

AS reported in a leading article in our issue of November 11th, the Inland Revenue lost their appeal to the Court of Appeal in *Rennell v. C.I.R.* against a decision that a discretionary settlement made

by the late Mr Augustine Courtauld, expressed to be in consideration of the marriage of his daughter, qualified for the exemption from estate duty conferred by Section 59 (2) of the Finance (1909-10) Act, 1910. When counsel for the Inland Revenue asked for leave to appeal to the House of Lords, the Master of the Rolls pointed out that one argument they had put forward was that this was a 'colourable' transaction, an argument which both Courts had rejected. Counsel for the Inland Revenue then said (on instructions) that they desired to appeal only on the law and would concede that the transaction was not colourable. Accordingly leave had been given on terms that there was to be no reopening of questions of fact.

There must have been second thoughts at Somerset House, for on November 23rd the Attorney-General asked the Court of Appeal to relieve the Inland Revenue of this concession. Lord Justice Donovan said that the word 'colourable' was a timid way of saying 'untrue'. Was that what the Inland Revenue meant? The Attorney-General said he wanted to argue that there was no real bargain. He also argued that the Court of Appeal had no power to extract concessions from a would-be appellant to the House of Lords. The Court told the Attorney-General that if the Inland Revenue wanted to be relieved of the concession they had made, they had better ask the House of Lords.

End of the L.C.C.

A WHITE PAPER has now been issued by the Government called *London Government*,¹ setting out their proposals for the reorganization of the government of London. The aim is to have legislation introduced in time for the new authorities to be elected in the autumn of 1964 and to take over their local governments on April 1st, 1965.

The proposals include three main provisions. These are, the merging of the present boroughs and urban districts into new London boroughs and these would be the main units of local government, responsible for most local government services. Secondly, it is intended to establish a directly-elected Greater London Council to carry out functions covering the whole of the metropolis. Thirdly, the administrative counties of London and Middlesex will be abolished and certain home counties, including Essex, Herts, Kent and Surrey will lose part of their areas to the new London Government. Croydon, East Ham and West Ham will cease to be county boroughs.

The Government's proposals differ from the recommendations of the Royal Commission in two particulars. First, the Government wishes to establish larger and therefore fewer boroughs than the fifty-one suggested by the Commission. Second, responsibility for education is to fall on the boroughs, with a special authority for a central area covering about two million people. The important functions to be taken

over by the London boroughs will be housing, personal and environmental health and welfare services, children's services and (excluding the central area) education. They will also have certain responsibilities in town planning and highway administration.

Probably one of the most controversial proposals will be the decision that the local boroughs will control education. The Government do not say at this stage when a Bill embodying these proposals will be put before Parliament. A period of consultation between Government departments and local authorities will be the next move.

Convention on Exports

WITHIN the limits which it set for itself the National Convention of the Export Council for Europe seems to have been a big success. One of the lasting impressions of the conference is that British exporters, at least those who have been enthusiastic enough to attend the convention at Eastbourne, view with something stronger than resignation the possibility that continental Europe may soon become the main outlet for British exports in the 1960s. Indeed, a good deal of enthusiasm was evinced about the prospects for this market. Altogether, British industry seems to have accepted the strong probability that this country is about to enter the European Economic Community with all that involves, economically and politically.

The other important outcome of the conference was the strong and concerted expression of opinion on the part of industrialists that the Government could still do more to help in the export drive. Attention was given particularly to the improvement of credit terms and criticism was particularly articulate on the problem of credit for smaller items of export. There seems to be a strong sense of grievance among exporters that some European governments are giving much more powerful and imaginative aid to exporters than is the United Kingdom Government. The heavy electrical industry is strongly of the view that it is competing against hidden subsidies in the form, for example, of contracts being granted in the home market to successful bidders for overseas contracts.

Company Finance

THE annual survey of the financial experience of some 2,700 quoted companies published last week in the Treasury's *Economic Trends* brings home the importance of a high level of economic activity for profits and dividends. The accounts of these companies reveal that in 1959, when Bank rate was low and when credit restrictions eased, their total income was 14 per cent higher than in the previous year. This fact, coupled with the tax cuts in the 1959 Budget, resulted in a 25 per cent increase, equal to £202 million between the two years in disposable income. Of that sum £110 million was paid out in

¹ *London Government, Government Proposals for Reorganization*. Cmnd. 1562. H.M.S.O. 1s net.

higher dividends which although they were one-third higher than in 1958, still enabled companies to retain a relatively higher proportion of their gross income than in the previous year.

A marked change in the method of financing additions to fixed assets and stocks is revealed by the analysis of the balance sheets of these companies. Whereas between 1954-57 these companies relied to

a considerable extent on outside finance for net investment, in both 1958 and 1959 their own resources were adequate for this purpose. In fact, in 1959 savings exceeded net investment in fixed assets and stock and the enhanced surplus of liquid resources was employed in acquiring marketable securities and further interests in associated and subsidiary companies.

This is My Life . . .

by An Industrious Accountant

CHAPTER 101

THE industrial accountant's recurring headache is always the problem of credit control of customers' accounts. The great majority of our customers are straightforward people, honest and reasonable, even though a few wage a permanent guerilla warfare for excessive discounts and extended credits. They're old friends, however, and the disagreements are only on the surface. There is also an annual fringe of unfortunates who fail through sheer unpredictable bad luck; men who visit me with set lips and miserable eyes to say bleakly that they can't pay; they need time, their best-laid plans went aft aglay. There's an occasional rogue, too.

Ilkley, our factory manager, was trying to fix a big deal with some new customers recently and wanted high-bracket credit rating recorded. The new-comers were planning an involved operation which included supplying a service of weekly-changed overalls, white coats, dungarees, etc., to all types of factories and shops over a wide area; soiled garments would be collected and replaced on a rental basis. Ilkley wanted the contract to supply the garments, as the bulk represented an initial 15 per cent increase in his output. Two local laundries had been contacted to give the rapid service required; with high turnover and small outgoings a narrow profit margin should ultimately pay off handsomely. The new people wanted long-term credit from us, until cash accumulated to meet our big bill for materials supplied.

Now, we deal with an agency which reports on customers' credit status etc.; their findings were inconclusive. The new company was relatively small, its shareholders being a handful of its own employees, its general manager, and one Smith, a local financial magnate, reputedly worth untold wealth, who had taken 80 per cent of the share capital. My worry was that the assets were so meagre. The offices and warehouses were rented; the delivery vans were being acquired on a hire-purchase basis; the only realizable

items in case of trouble would be a stock of second-hand soiled clothing. We used to have some of those *Cries of London* prints at home once, I remembered; the *Ol' clo'* picture hadn't been very prepossessing.

But Ilkley was dead keen on the deal; Smith's name was good enough for him. Finally, we agreed that their general manager should come along for a chat about credit. He was a brisk little fellow with a small, clipped moustache and persuasive eloquence. He made the project seem sound and I felt favourably disposed. However, it was time at length for the delicate cough. Just for the record, of course, how about security? Long credit and all that.

Ilkley covered it up smoothly ('Of course, these accountants must ask dam-fool questions') and the G.M. co-operated ('After all, it's their job, really, you know'), and a little silence fell suddenly. Then the G.M., rather stiff and vexed, said: 'Hardly expected this would be necessary, with Smith supporting us'; and Ilkley: 'Isn't Smith's name good enough for us?' So I said with my most innocent expression that, of course, if Smith was *guaranteeing* the account, that was fine; there was no more to be said. So the G.M., less friendly at this stage - rather curt, in fact - explained that Smith couldn't be expected to involve himself in minor details, his name as chief shareholder should be sufficient guarantee etc.

The revelation to me was that Ilkley sided quite genuinely with the general manager; he thought that the rich shareholder would be automatically liable to aid the company if necessary. Even after careful explanations of limited liability, his reaction was that you couldn't expect Smith to let his name be associated with anything doubtful or shady, let alone with a failure. There was no question in his mind of seeking a formal guarantee; of course it was a question of trust.

Well, I had to make the final decision. I decided regretfully and Ilkley has hardly been civil to me since. Tennyson said that simple faith was more than Norman blood; I'm afraid I'm deficient on both counts. But a good friend of mine - chief accountant to a big hire-purchase company - has been mourning recently over the appalling total of bad debts charged in his profit and loss account this year already. He has to bear the blame, even though he yielded - against his better judgment - to persuasive colleagues who wanted to make up their sales figures. So much for a trusting nature in credit control.

Finance and Commerce

E.M.I.

THE accounts of Electric & Musical Industries Ltd, which provide this week's reprint, are easy to follow – the eye being led from narrative to the relevant figure by horizontal ruling. This style of E.M.I. seems unique, although, of course, memory can be fickle and there may be other instances of its use. At any rate, it is a great help. With some company accounts, the eye has to travel from narrative so far out into space that the connection between the words and the figures is difficult to establish.

But too much reliance should not be placed on ruling; E.M.I., for instance, provides a statement of 'Loan Stock Conditions' which 'does not form part of the accounts to be laid before the company in general meeting'. What is here shown across seven inches could well be reduced to four inches. Narrative and figures should not be separated more than is necessary – even with horizontal ruling.

This report provides a further instance of the lead being given by the big companies in the publication of turnover. The figures are given in the 'Summary of Group Profits, Sales and Assets' covering eight years and there is an eleven-year columnar graph of sales in which the columns are divided between sales overseas and sales in the United Kingdom. United Kingdom sales are about £33 million compared with about £49½ million overseas.

Cash Flow

Sir Joseph Lockwood, the chairman, commenting on the graph, says that although the figures give a good idea of the changing size of the group's sales and productivity capacity, they do not provide a true comparison of product sales from year to year. Lack of comparability is often very small, but in the year to June 1961, Morphy Richards' sales are included from September 12th and of Ardenite from September 28th and both are absent from previous years. Total group sales, including these two sources, have, in fact, risen in each of the past two years by 2 per cent.

This, says Sir Joseph, is made up of an increase of 8 per cent in sales of records, of 13 per cent in electronic capital goods, a reduction of 11 per cent in household appliances, radio and TV, and virtually no change in the remaining products (magnetic tape, hearing aids, batteries, etc.); and, as always in such long term comparisons over a decade, one cannot

juggle with figures to the extent of eliminating the effect of changing price levels.

Notice will be taken of the description 'Cash flow' in the Summary of Group Sales. It is a term which has come into use in recent years to the point where it is now established in the language of the investment analysts, economists and financial journalists and others who write about these things. But, possibly, it is just as well in accounts intended for general consumption that the explanation is given that 'Cash flow' is retained profits plus depreciation. Better be clear than clever – at least, for the present.

Properties Again

REFERENCE was made recently to the emphasis on property development in the report of Debenhams Ltd, the department store company.

Another notable adherent to the 'do it yourself' policy is Saxone, Lilley & Skinner (Holdings), the footwear company, with 475 retail trading sites in the group.

Saxone is planning to raise £2 million by a debenture issue, part of which will provide funds for 'important developments'. At a recent meeting, Mr J. S. Abbott, the chairman, pointed out that the ability to raise loan capital over past years had been largely facilitated by the retention of the major proportion of the company's properties as freeholds. As an alternative to raising funds by the sale of freeholds in exchange for long lease, this policy, he said, had twofold advantages.

In the first place, they had been able to take advantage of the tremendous appreciation in value of freehold shops and buildings as security for further issues of loan capital. Secondly, the company had retained possession of assets which had increased, and were likely to go on increasing in value, whereas leaseholds, in the long term, were bound to depreciate as the life of the lease shortened, and were subject to heavy increases on renewal.

'I would submit', said Mr Abbott, 'that just as you do not necessarily sell a share because the immediate return is low, so we are determined not to part with shareholders' assets which we think will grow in value, merely to enhance the immediate return on capital employed.'

Review

It has been said by company chairmen in support of their sell-and-lease-back policy that their *métier* is retail trade; at least one drapery group has been built up on that system of finance. Saxone has brought a property man on to its board: Mr G. A. Combe, a Past-President of The Royal Institution of Chartered Surveyors, chief surveyor for many years of the Prudential Assurance Co, a director of Selfridges for eleven years, and for some time managing director of the City of London Real Property Co.

Mr Abbott had already announced the board's

Electric & Musical Industries Limited

SUMMARY OF GROUP SALES, PROFITS AND ASSETS

Year ended 30th June	1954	1955	1956	1957	1958	1959	1960	1961
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Sales	32,103	41,500	52,894	61,063	65,905	67,532	68,700	82,440
Trading Profit	1,061	1,875	2,417	4,732	5,322	5,074	5,221	5,448
Exceptional and non-recurring items	+15	+105	+28	-936	-421	-165	+127	—
Taxation	-507	-1,105	-1,500	-2,549	-2,573	-2,534	-2,714	-2,834
Minority shareholders	-23	-43	-73	-133	-172	-143	-221	-171
Profits after tax and minority shareholders	546	832	872	1,114	2,156	2,232	2,413	2,443
Appropriation of Profits:								
Preference Dividends	11	39	107	107	107	110	114	114
Ordinary dividends	208	325	325	325	325	607	971	1,205
Retained in the business	327	468	440	682	1,724	1,515	1,328	1,124
Cash Flow (being retained profits plus depreciation)	718	1,224	1,371	1,778	2,851	2,875	2,750	3,056
Net additions to fixed assets	620	1,779	2,005	1,507	1,758	2,405	2,523	2,422
Capital Employed:								
Share Capital and Reserves	10,280	13,599	13,784	14,434	15,924	17,169	25,587	37,016
Outside shareholders' interests in subsidiaries	325	500	548	819	775	899	1,320	1,298
Borrowed money:								
Fixed loans	2,353	2,600	2,516	3,393	3,640	3,652	3,454	3,205
Bank loans and overdrafts	1,545	2,141	3,740	4,246	2,375	4,735	1,379	7,691
Total Capital Employed	14,503	18,840	20,588	22,892	22,714	26,455	31,740	49,210
represented by:								
Fixed assets	4,828	5,781	6,855	7,266	7,897	8,942	12,966	14,763
Premiums on shares acquired in subsidiaries	—	1,206	1,186	1,134	1,104	1,102	1,196	12,043
Net current assets	9,675	11,853	12,547	14,492	13,713	16,411	17,578	22,404

Electric & Musical Industries Limited

CONSOLIDATED PROFIT & LOSS ACCOUNT YEAR ENDED 30TH JUNE 1961

	1961	1960
	£	£
Consolidated Trading Profit	5,448,000	5,221,000
after charging the following items		
Depreciation	1,932,000	1,422,000
Bank Interest	299,000	104,000
Interest on fixed loans	157,000	184,000
	2,388,000	1,710,000
Add:		
Exceptional and non-recurring items	—	127,000
	5,448,000	5,348,000
Taxation (on current profits)		
Income Tax £1,313,000, Profits Tax £473,000	1,786,000	1,597,000
Less double taxation relief	835,000	664,000
	951,000	933,000
Overseas Taxation	1,883,000	1,781,000
	2,834,000	2,714,000
Profit after Taxation	2,614,000	2,634,000
Profit attributable to minority shareholders of subsidiary companies	171,000	221,000
Profit Available for Appropriation	£2,443,000	£2,413,000
Appropriation of Profits		
Parent Company Dividends		
4½ per cent preference dividend (net)	13,000	13,000
5½ per cent preference dividend (net)	101,000	101,000
Interim ordinary dividend (net)	344,000	278,000
Proposed final ordinary dividend (net)	861,000	693,000
	1,319,000	1,085,000
Retained by Parent Company	—27,000	335,000
Subsidiaries	1,151,000	993,000
	1,124,000	1,328,000
	£2,443,000	£2,413,000

intention to carry out a comprehensive review of the 475 retail sites with the object of ensuring that each unit made a contribution to group profits appropriate to its current market value as disclosed by the recent Healey & Baker valuation. That review, he assured shareholders, was under way. But beyond ensuring that each property was being used to best advantage, the board, he said, realized the need to keep shareholders informed of the asset value of their shares

which, incidentally, had risen from 6s 5d in 1960 to over 20s today.

One of the severest strictures heard in times of merger discussions has been that profits were, in reality, only a poor return on the value of assets employed if only the assets were revalued to show what they were worth now. And one thing some merger discussions have brought about has been a property revaluation.

Electric & Musical Industries Limited

NOTES ON THE ACCOUNTS

The accounts now presented should be read in conjunction with the following notes which form an integral part of the accounts:

1 **Subsidiary Companies** (a) During the year, the issued Ordinary Stock of the Company was increased by £2,187,000 to £11,244,000 by the allotment of 4,374,601 Ordinary Shares of 10s each as part of the purchase consideration for the shares of Morphy-Richards Limited, Ardenite Limited and Ardenite Acoustic Laboratories Limited. The accounts of these subsidiaries have been included in the consolidated accounts. The Group profit before taxation for the current year includes £278,000 representing the profits earned by these subsidiaries since the dates of their acquisition in September 1960.

(b) The increase in the premiums on shares acquired in subsidiaries of £10,847,000 arises from the acquisition of the Morphy-Richards and Ardenite companies and is the difference between the net assets of those companies and the value at which their shares were purchased. As stated above part of the purchase consideration was the issue of EMI shares the market value of which exceeded their nominal value by £8,173,000 this amount being shown under the heading Capital Reserves - Share Premium.

(c) EMI-Cossor Electronics Limited a Canadian subsidiary has been consolidated on the basis of its audited accounts for the year to 31st March 1961 and the overseas subsidiaries of Morphy-Richards Limited on the basis of their audited accounts for the year to 30th April 1961.

2 Capital and Reserves

	Capital £'000	Capital Reserves £'000	Revenue Reserves £'000	Profit and Loss Accounts £'000	Total £'000
Balances at 30th June 1960	12,517	5,365	2,900	4,805	25,587
Parent Company					
Issue of Ordinary Shares in 1960 and premium thereon	2,187	8,173			10,360
Less expenses of issue					-27
Undistributed profit of the year				-27	-27
Subsidiary Companies					
Undistributed profit of the year				1,151	1,151
Revaluation in sterling of balances at 30th June 1960 arising on consolidation		-18	12	15	9
Transfers		678	9	-687	
Net assets acquired from minority shareholders		13	1	132	146
Cost of shares acquired from minority shareholders				-210	-210
Balances at 30th June 1961	<u>14,704</u>	<u>14,211</u>	<u>2,922</u>	<u>5,179</u>	<u>37,016</u>

3 **Contingent Liabilities** Contingent liabilities of the Group in respect of guarantees and bills discounted amount to £2,300,000 (previous year £1,400,000) and there is an uncalled liability for £90,000 on shares in a trade investment. Contingent liabilities of the parent company amount to £1,263,000 (previous year £794,000) of which £916,000 (previous year £781,000) is in respect of liabilities included in the consolidated accounts.

4 **Capital Commitments** The estimated amount of contracts for capital expenditure not provided for in the accounts is £684,000 (previous year £736,000).

5 **Depreciation** The increase of £510,000 in the charge for depreciation includes £238,000 in respect of Morphy-Richards Limited and an additional £149,000 from the revaluation of UK freehold properties on the basis of current replacement values.

6 **Directors' Emoluments** The trading profits are shown after charging directors' emoluments of £162,000 (previous year £143,000), which sum includes £150,000 for the salaries and pensions contributions of executive directors in this country and in the USA, fees of non-executive directors £7,000 and the pension of a former managing director £5,000.

7 **Taxation** Undistributed profits of certain of the overseas subsidiary companies are liable to overseas and/or United Kingdom taxation if distributed as dividends.

8 Principles of Valuation

(a) **Rates of Exchange** Trading results, fixed assets and current assets and liabilities of overseas subsidiaries have been converted into sterling at the rates of exchange ruling at the 30th June 1961.

(b) **Fixed Assets** In the UK freehold land and buildings are valued at replacement values. The remaining fixed assets are at original cost. Overseas fixed assets are valued at original cost or at replacement values where local legislation requires this basis to be adopted. Depreciation has been calculated on these respective values.

(c) **Stocks** Stocks are valued at cost or market value whichever is the lower. The provision for obsolescence is deducted from the total figure for stocks. Profits arising from transactions within the EMI Group are eliminated.

CITY NOTES

THE unit trusts have not been slow to appreciate the scope offered by the new Trustee Act. Unicorn Securities, managers of the Unicorn, Falcon and Community trusts, is the latest group to introduce a specifically designed trustee trust called Intrust Fund.

The trust deed has been drafted in strict compliance with trust law and with the needs of trustees especially in mind. The objects are to afford trustees and others the opportunity to invest in a balanced portfolio of securities in British and overseas companies, to provide potential income growth for life-tenants and stability and growth of capital in the long term for remaindermen.

Trustees are Royal Exchange Assurance which regards Intrust Fund as a suitable medium of investment for certain of the trusts of which it is a trustee and which are subject to the statutory investment powers and which could not otherwise, with convenience, obtain a sufficient spread of investment.

Minimum investment in Intrust Fund is £500 and units are being initially offered at 20s to give an estimated gross yield of 5 per cent calculated in accordance with the Board of Trade formula.

Basically, unit trust investment of this type offers the trustee the opportunity to invest in a far wider spread of investment than restricted capital would permit and also the opportunity to take advantage of expert investment management.

RATES AND PRICES

Closing prices, Wednesday, December 6th, 1961

Tax Reserve Certificates: interest rate (25.11.61) 3½%

Bank Rate

Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6½%
Oct. 27, 1960	5½%	Nov. 2, 1961	6%

Treasury Bills

Sept. 29	£6 11s 0.48d%	Nov. 3	£5 8s 6.10d%
Oct. 6	£6 2s 5.80d%	Nov. 10	£5 8s 5.49d%
Oct. 13	£6 0s 0.28d%	Nov. 17	£5 7s 9.71d%
Oct. 20	£5 18s 5.35d%	Nov. 24	£5 7s 9.40d%
Oct. 27	£5 14s 6.57d%	Dec. 1	£5 7s 1.08d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	4½-5½%	2 months	5½-5½%
<i>Fine Trade Bills</i>		3 months	5½-5½%
3 months	6½-7½%	4 months	5½-5½%
4 months	6½-7½%	6 months	5½-5½%
6 months	7-8%		

Foreign Exchanges

New York	2.81 3/8-1/4	Frankfurt	11.25 3/8-5/8
Montreal	2.92 1/2-1/4	Milan	1745 1/2-1/4
Amsterdam	10.10 1/4-1/2	Oslo	20.01 1/8-1/4
Brussels	139.98 1/4-1/2	Paris	13.79 1/4-1/2
Copenhagen	19.33 1/4-1/2	Zürich	12.13 1/8-1/4

Gilt-edged

Consols 4%	58½	Funding 3% 59-69	81 1/8
Consols 2½%	37½xd	Savings 3% 60-70	79½
Conversion 5½% 1974	92½xd	Savings 3% 65-75	71 1/8
Conversion 5% 1971	92½	Savings 2½% 64-67	84½
Conversion 3½% 1969	85½	Treasury 5½% 2008-12	83½
Conversion 3½%	51½	Treasury 5% 86-89	81½
Exchequer 5½% 1966	98 1/8	Treasury 3½% 77-80	69xd
Funding 5½% 82-84	92½	Treasury 3½% 79-81	69
Funding 4% 60-90	88½	Treasury 2½%	37½
Funding 3½% 99-04	57½	Victory 4%	93½
Funding 3% 66-68	83 1/8	War Loan 3½%	51½

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

University Graduates and the Profession

SIR, - May I correct the error in your excellent leading article of November 25th on 'University graduates and the profession' in including among the English universities at the University of Cambridge. That is not the case. You say about the paucity of graduates in accountancy.

at the end of their first year to be accepted for the honours school of economics. This year there are eleven such students studying accountancy as a special honours subject and coming up behind them are twenty-three first-year accountancy students, most of whom hope to be accepted next June for the honours course; the rest will study for a pass degree.

But, as you rightly point out, we might as well face facts. The Universities Scheme for our profession, once so full of promise, is now as dead as the dodo, despite occasional lip service by those who ought to know. What our profession has got to do, is much older, is to decide whether we are to be trained primarily as good accountants or as fuller and more systematic accountants and academic accountants. The increasing

of people other than accountants. For example, lectures in accountancy are now given to students taking degrees in engineering – whether electrical, mining, civil or mechanical. These lectures were, indeed, provided at the express request of the engineers and a paper in their final degree examination includes questions in management accounting and so on. There is a great demand on the part of senior executives and managers in industry for extra-mural lectures in accountancy subjects and the economists, too, manifest a growing interest in accountancy which before long will form part of a course leading to a postgraduate diploma in business studies. Yet the accountancy profession itself leaves us for all practical purposes in what was once in another context called 'splendid isolation' and I cannot help contrasting the lack of any real interest in university education on the part of my own profession, at any rate in the civic universities, with the simply tremendous interest taken by other professions – law, medicine, architecture, the Church, and the scientists, for example, in what is going on in the universities.

One of the most extraordinary things, of course, that happened only a year or two after the inauguration of the Universities Scheme was the sudden withdrawal by the profession of the modest financial help given to universities which, like Sheffield, introduced accountancy into their academic curriculum expressly at the request of the profession. Is it then to be wondered at that, despite the fulfilment of obligations in the matter of teaching in these universities, fundamental research in accountancy is suffering from acute financial starvation? And the one should be complementary to the other.

Yours faithfully,

C. A. WHITTINGTON-SMITH, LL.M., F.C.A.

Senior Lecturer in Charge

DEPARTMENT OF ACCOUNTANCY AND FINANCIAL
ADMINISTRATION

*The University,
Sheffield 10.*

SIR, – You are to be congratulated on the excellent leader 'University graduates and the profession' (November 25th issue). As a person who has devoted a considerable amount of time and energy to serving in a university teaching accounting I think, however, the following comments are relevant:

Accounting is an honours degree subject in the United Kingdom universities of London, Manchester and Cambridge.

A student does not lose a year by taking a degree other than one in accountancy under the Scheme. This is a great advantage of the Scheme. This is a great advantage of the Scheme.

tion and, indeed, of education itself. It is a very different matter from instruction and correspondence courses. As the profession has in many instances been indifferent to the universities and has not thoroughly studied university work, it is hardly surprising that the universities in many instances have become indifferent to the profession. Worse still, headmasters of schools being heavily influenced by universities are not advising their best students to enter the profession. It is a bitter disappointment to know that part of the late Mr P. D. Leake's bequest advances the study of economics and that accounting is not even a part of an Oxbridge first degree.

It is with puzzlement that one reads that Mr Bertram Nelson's report in the Committee on Education and Training is a *minority* report and not a *majority* report. How can we as a profession throw away the benefits of a university education to our successors? We are guilty of the act of killing the prestige of the English profession which will in a few years time be the *one* member in the world profession sadly lacking in educated members.

Yours faithfully,

Prestbury, Cheshire.

G. W. MURPHY.

SIR, – I was interested in your editorial 'University graduates and the profession', published in *The Accountant* of November 25th. Although this article dealt with university education as an entrance to the profession, reference is made to public education which, of course, includes education at a technical college.

Some ten years ago I wrote a letter which was published in your columns in defence of the proposals made in the report of the Carr-Saunders Committee on professional education in technical colleges, and which had been vigorously opposed by the Institute in a lengthy memorandum to its members.

When I wrote that letter I did not fully appreciate how rapid the development of professional education in technical colleges would be. Citing, as an example, the College of Technology in Swansea, there are now three chartered accountants on the full-time staff of the Commerce Department, and courses are available giving full instruction for the Intermediate and Final examinations of all professional accountancy bodies, including the Institute. The number of students enrolling for these courses grows larger each year, and the examination results have been very satisfactory, including some distinctions. Candidates for the examinations of The Association of Accountants and for The Institute of Works Accountants are not aware of these facilities. Moreover,

the initiation of a full-time course for a National Diploma in Business Studies, with a similar subject content to the National Certificate and, here again, the Association is giving appropriate exemptions in its examinations.

Yet despite the continued advance during the period of ten years mentioned, the Institute has not, to my knowledge, offered any open encouragement to articled clerks to avail themselves of the excellent facilities now available at technical colleges at nominal charges. Some students for the Institute examinations do attend technical colleges – often with very good results – but the bulk of them stay away. It might be appropriate to state here that the instruction given at a technical college is directly related to the examinations of the Institute, whereas university accountancy education, however admirable it may be, is conducted on very different lines, with the result that some university graduates in accountancy, being exempted from the Institute Intermediate examination, find the advanced accounting courses very difficult.

Some reference is made in your editorial to the recommendations of the Parker Committee, not, I detect with entire satisfaction. Whilst admitting the difficulty of ensuring the regular attendance of all articled clerks at technical colleges because of the nature of their duties, this difficulty is not insurmountable, and it seems unwise to leave such an important sphere of public education virtually untried.

It has taken a decade for the proposals first made by the Carr-Saunders Committee to come to fruition, yet the Institute, with commendable patience, still waits. When is the Council of the Institute going to become actively conscious of the wider education which is available to the accountant as a public service?

Yours faithfully,
ARNOLD FRYER,
F.C.A., A.A.C.C.A., A.C.W.A.

Wansea.

SIR, – It appears beyond doubt that the intention of your editorial article 'University graduates and the profession' in the issue of November 25th, was to urge the accountancy bodies to encourage the study of accountancy at the universities. It is therefore particularly unfortunate that this progressive attitude should have been marred by certain misstatements of fact which, if left uncorrected, may cause considerable damage to the present Universities Scheme, and may indirectly cast doubts on the value of a university curriculum in accountancy.

Your assertion that 'in almost all our universities accounting is not regarded as an honours subject' could perhaps be taken to mean that degrees are not awarded in the specialism of accounting as such, a step which in any event it is probable that few would consider desirable. On closer examination, however, it is obvious that this is not the meaning you intend

to convey as you then proceed to make the most alarming statement that 'to take the scheme, therefore, means the student abandoning all hope of getting an honours degree' – an assertion which is completely untrue, as can be seen by referring to the pamphlet *The Universities and the Accountancy Profession*. In this pamphlet, prepared on behalf of the Joint Standing Committee of the Universities and the Accountancy Profession, the extracts from the regulations of the twelve universities participating in the scheme show that at eight universities the degree may be awarded with honours or as a pass degree; at one university the degree is awarded only as an honours degree; whereas in the case of the remaining three universities no specific reference is made to pass or honours, although from personal contact I can say that in two out of these three cases the degree may be awarded as an honours degree.

Essentially, therefore, the question of honours or pass is determined by the standard attained, and the position at this university is that, since our own degrees were first awarded, some 70 per cent of students who graduated under the scheme were in fact awarded honours. Furthermore, experience at this university suggests that since scheme candidates are in open competition for places with other applicants for admission to the Faculty of Economics, there is no reason to believe that the quality of students electing to read for a degree under the scheme is in any way inferior to students intending to specialize in say economics, politics, or sociology.

A further point which is open to criticism is your numerical reference in which you state 'There are less than 200 students taking accounting under the Universities Scheme'. Presumably although the wording suggests 'total' numbers at any one time, this refers to the 'annual' intake of 180 mentioned in the Parker Report in relation to the session 1959-60.

In conclusion I would add that the whole tone of your article, so far as it relates to the university teaching of accounting, fails to do justice to those accountants who have taken up an academic career and have been struggling against great odds to obtain for the subject of accounting that recognition which is apparently your own avowed aim.

Yours faithfully,
H. HART,
Lecturer in Accountancy.
DEPARTMENT OF ECONOMICS.

University of Southampton.

SIR, – I was very pleased to see you trying to face the facts in *The Accountant* of November 25th, by pointing out that in ten years time there will be 170,000 university students and if the Institute is to survive and maintain the prestige it now enjoys, it must be in a position to attract its fair share from the future intellectual *élite*, along with The Law Society. With regard to the low 11 per cent of articled clerks originating from universities, I am afraid the university authorities can only provide the end of the

solution. The beginning must be initiated by the Institute itself. It can point out to successful university applicants the opportunities offered by the Universities Scheme – and believe it or not, there are many dithering applicants. With an increased number of students reading accountancy, many problems can be solved.

Officers of district societies of the Institute might occasionally address the university students' accountancy societies and after the lecture, could offer the students many helpful suggestions. You may say that university accountancy students can meet members of the Institute outside their universities, or they can meet articled clerks by attending the latter's meetings, but university students live in a world of their own and an occasional visit from an officer of the Institute cannot do any harm, on the contrary it may raise their morale and prestige. How many chartered accountants have ever addressed university students' meetings?

At present accountancy graduates who have studied the theory of accountancy at a university have to do three years' articles, just like an engineering or history graduate who is not expected to know anything about consolidated balance sheets. Surely three years' study of accountancy can save one year's practical training and therefore two years' articles would be enough for such a graduate, if a period of three years' articles is considered to be necessary for a history graduate.

This letter would be incomplete if no reference was made to the perennial problem of remuneration of university graduates, which by all standards can be considered to be inadequate. After all, both capitalist and communist societies, being what they are, tend unfortunately to measure intellectual success with material fortune. Adequate remuneration will indirectly, as well as directly, increase the recruitment of university graduates into the profession, by raising their whole standing in society during their period of articles.

Yours faithfully,
S. H. GREGORY, B.A.

London WC1.

[One of the purposes of a leading article is to promote discussion on matters of moment. We do not expect the views presented to be universally acceptable and we welcome the interest both of those correspondents whose letters appear above as well as those whose letters we are precluded from publishing owing to limits of space. We regret, of course, the error relating to the number of chairs of accounting in our universities. This we now find in fact to be four in England and Wales – at London (one only), Cambridge, Bristol and Birmingham, two of which (London and Birmingham) are occupied by qualified accountants – and there are two chairs in Scotland, at Edinburgh and Glasgow, both being occupied by members of the Scottish Institute. We are glad to note that there are now a number of universities with facilities for accountancy instruction which allow students to take degrees with honours in accounting. – Editor.]

Presentation of Accounts

SIR, – I have read with very great interest your report upon the accounts of Williams & Williams Ltd in the issue of *The Accountant* of November 25th, and I am grateful for the kindly remarks you make.

I will certainly see how we can simplify the presentation of the Consolidated Profit and Loss Account, which I agree with you is indeed a formidable document.

One thought occurs to me that the wording might appear in the middle, so that the figures for 1960-61 appeared on the left of the wording and the figures for the preceding year appeared on the right of the wording, or possibly vice versa. This at least would break up the mass.

Yours truly,
S. R. HOGG, *Chairman*,
WILLIAMS & WILLIAMS LTD.
London EC2.

Stranger than Fiction

SIR, – I have just read with interest the letter in your issue of October 7th, written by Mr R. G. Hoole of Bulawayo, Southern Rhodesia, in which he refers to the explanation given to an auditor that missing files of returned cheques had been eaten by a crocodile.

In *A History of Accounting and Accountancy* (Edinburgh 1905), reference is made to the discovery of some papyrus accounts of the first century B.C. that had been found in the mummies of crocodiles during explorations in Egypt. I quote:

'The crocodile-mummy as a source of manuscripts was accidentally discovered in 1900 at Umm el Baragat (the ancient Tebtunis). When excavating in the large Ptolemaic necropolis adjoining the town one of the workmen employed, disgusted at finding a row of crocodiles where he expected sarcophagi, broke one of them in pieces and disclosed the surprising fact that the creature was wrapped in sheets of papyrus. The ordinary process employed in the mummification was to stuff the mummy with reeds and sticks, which were covered with layers of cloth. When papyrus was used, sheets of this material were wrapped once or several times round the mummy inside the cloth, and a roll or two would frequently be inserted in the throat or other cavities.'

It would seem that, in his pursuit of missing vouchers, Mr Hoole was given an explanation that not only was – almost literally – as old as the hills, but had some basis in historical precedent.

About seven years ago you were kind enough to publish a theory of mine that William Shakespeare was an accountant, which I illustrated copiously by references in his plays to auditing and accounting. When I now find in *Antony and Cleopatra*, Act II, scene vii the following lines

'LEPIDUS: What manner o' thing is your crocodile.'

ANTONY: It is shaped, sir, like itself . . . it lives by that which nourisheth it . . .'

I am more than ever convinced that my theory is the only one to fit the circumstantial evidence.

Yours faithfully,
Vancouver, B.C. D. R. LUKIN JOHNSTON.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the judgments, in the 'Annotated Tax Cases'.

In re Collard's Will Trusts

In the High Court of Justice (Chancery Division)
February 23rd, 1961

(Before Mr Justice BUCKLEY)

Estate duty – Advancement excluded for business purposes – For purpose of reducing estate duty – Whether power to convey freehold of farm by way of advancement – Trustee Act, 1952, Section 32.

The testator settled half his residue on a daughter for life on protective trusts, and then on trust for her children on attaining twenty-one or previously marrying. The statutory power of advancement in Section 32 of the Trustee Act, 1952, was incorporated, save that no advancement was to be made to any beneficiary 'for any purposes connected with business'.

The daughter was past the age of child-bearing, and she had one son who had attained twenty-one. For several years a farm forming part of the estate had been appropriated to the daughter's settled share, and had been occupied by the son as a tenant. The son ran the farm by way of business and as a full-time occupation. The value of the freehold of the farm was £20,000.

A summons was taken out by the independent trustee to ascertain whether the trustees could convey the freehold of the farm to the son by way of advancement, in view of the fact that the son was running the farm as a business and of the fact that the purpose of the proposed advancement was to reduce the estate duty payable on the daughter's death. The son stated in an affidavit that the only immediate effect of the advancement, as far as the son was concerned, would be the cesser of his obligation to pay the rent of £156 a year, and the assumption of the liability for all landlord's repairs, the burden of which he had borne in order to relieve his mother; that those and the other changes would have no material effect upon the business; and that he did not have in mind any business transaction to which the transfer to him of the freehold of the farm had any relevance.

Held: (1) that the trustees could advance £20,000 in cash to the son, and could subsequently sell the freehold of the farm to him for that sum, and as the Court would seek to avoid circuity of action, the trustees had power to convey the freehold to the son direct, and to treat the conveyance as an advancement to him of an amount equal to the freehold's market value;

(2) that the purpose of the advancement, namely, the avoidance of estate duty, was not a purpose

connected with the son's business, and was therefore not excluded from the trustees' power of advancement, and that the proposed transaction was one that the trustees had power to carry out.

In re Latham

In the High Court of Justice (Chancery Division)
July 21st, 1961

(Before Mr Justice WILBERFORCE)

Estate duty – Accountability – Reimbursement – Canadian settlement – Duty payable on death of life-tenant – Succeeding life-tenant accountable in England but did not pay duty – Whether duty a debt allowable against second life-tenant's free estate – Whether any right to reimbursement – Finance Act, 1894, Sections 7 (1) (b), 8 (4), 9 (6), 20 (2).

By a settlement made in Canadian form of Canadian securities, and the sole trustee whereof was a Canadian Corporation, the trust fund was settled as to one-fourth part thereof on the settlor's widow for life. On her death the one-fourth share was held on trusts under which Sir Herbert Latham was entitled to a protective life interest in one-third and Sir Richard Latham became absolutely entitled on Sir Herbert's death. The settlor died on October 26th, 1931, but under the law then in force no claim for estate duty arose in respect of the trust fund. The widow died on December 12th, 1950, and estate duty became payable on the one-fourth share in which she had had a life interest, and Sir Herbert Latham became accountable for one-third of this duty. Sir Herbert died on July 24th, 1955, domiciled and resident in England, but he did not pay the duty.

Sir Herbert's executors claimed to deduct the amount of the duty and interest against his free estate. The Inland Revenue admitted the right to deduct the interest, but contended that the principal amount of the duty could not be deducted because the executors had a right to reimbursement either by Sir Richard Latham or, pursuant to Section 9 of the Finance Act, 1894, out of assets representing Sir Herbert's one-third share of the trust fund.

Held: (1) the amount of duty in question could not be deducted in ascertaining the amount of Sir Herbert's free estate because on general equitable principles (assuming that Canadian law was the same as English law) there would be a right of reimbursement out of the capital of the trust fund in respect of the payment by Sir Herbert or his executors; and that that equitable right was a right of reimbursement within Section 7 (1) (b) of the Finance Act, 1894.

(2) Sir Richard was not an accountable person within Section 8 (4) of the Act of 1894, because his interest in the trust fund was subject to two successive life interests and the duty in question was leviable on the death of the first of them and because Sir Richard was not an 'other person' within the subsection as those words had to be construed *ejusdem generis* with 'trustee, guardian, committee' and he was not

entitled in a fiduciary capacity but beneficially.

(3) There was not an effective right to reimbursement by virtue of 9 (6) Section of the 1894 Act, because the settlement was a Canadian one, and the Canadian courts would not allow a charge granted by a United Kingdom statute to interfere with beneficial rights under the settlement.

In re Matthews' Will Trusts

In the High Court of Justice (Chancery Division)
October 12th, 1961

(Before Mr Justice PENNYCUICK)

Estate duty - Incidence - Australian Federal estate duty - New South Wales probate duty - Direction to pay trust expenses, debts and testamentary expenses - Whether intention to exonerate reality from duties - New South Wales Stamp Duties Act, 1898 - New South Wales Stamp Duties Act, 1920 - Australia Estate Duty Act, 1914 - Australia Estate Duty Assessment Act, 1914.

The testator settled his moiety of the freehold in a hotel in Australia, and after making other specific and pecuniary gifts, he left the residue of his estate on trust for conversion; and out of the money arising from the sale and conversion, and any money of which he might be possessed, the executors were to pay in the first place:

'all the expenses incident to the execution of the preceding trusts and powers and my debts and funeral and testamentary expenses'.

At the date of the testator's death, on April 23rd, 1916, there were two death duties affecting his estate, namely, probate duty under the Stamp Duties Act, 1898, of New South Wales as amended by the Stamp Duties Act, 1920, and Federal estate duty payable under the Estate Duty Act, 1914, and the Estate Duty Assessment Act, 1914, of the Commonwealth of Australia. The former duty was payable in respect of all real and personal estate, and the amount of the duty was deemed to be the debt of the testator. Federal estate duty was payable on real property in Australia, and was a first charge upon the estate. In respect of each of the duties there were statutory provisions to the effect that, in the absence of directions to the contrary, each asset was to bear its own duty. The two death duties in the present case amounted to £3,098 14s 8d.

The trustees took out a summons for the determination of the question (*inter alia*) whether the Australian duties or either of them on the moiety of the freehold were payable out of the testator's residue, or out of the moiety, or out of some other fund, or in some other way.

Held: the testator's will did not show an intention that the Australian duties should be borne by residue, because (i) the duties were not 'expenses incident to the execution of the preceding trusts', (ii) nor were they debts of the testator, that is to say, debts owed by him, (iii) nor were they testamentary expenses; and that accordingly the moiety of the freehold interest was not exonerated from the duties.

In re Sutherland

In the Court of Appeal - July 22nd, 1960

[not previously reported]

(Before THE MASTER OF THE ROLLS, Lord EVERSHED, Lord Justice WILLMER and Lord Justice UPJOHN)

Estate duty - Share in company - Assets valuation - Possibility of balancing charge - Whether immature liability - Whether contingent liability - Finance Act, 1824, Section 7 - Finance Act, 1940, Sections 50, 55 - Income Tax Act, 1952, Sections 292, 297.

The deceased owned 98,700 shares in a company, and he died possessed of the voting control of the company, and consequently the shares had to be valued in accordance with Section 55 of the Finance Act, 1940. At the date of the deceased's death the company owned five ships, and their value was £1,150,000. The ships had cost the company £847,907, and at the date of death, March 29th, 1953, the company had had capital allowances so that the expenditure unallowed was then £290,749. In 1954 the ships were sold for £1,070,505, and an assessment in respect of the resulting balancing charge of £504,787 was made on the company, and the income tax payable was £239,773 16s 6d. An additional profits tax assessment for the chargeable accounting period ended March 31st, 1953, was also made, and the tax thereon was £30,305 9s 6d. The aggregate of these two amounts of tax was £270,079 6s.

It was contended by the plaintiffs, the executors, that, in computing the principal value of the deceased's estate for estate duty purposes, the deduction of the £270,079 6s was allowable on the ground that this sum was, at the date of the deceased's death, either an immature liability or a contingent liability within Section 50 of the Finance Act, 1940, which is applicable to Section 55 of the same Act. It was contended by the Inland Revenue that though the sale of the ships did give rise to the liability in question, there was neither an immature nor a contingent liability on the company at the date of the deceased's death, and that therefore the deduction claimed was not allowable.

Held (affirming the decision of Mr Justice Danckwerts): at the date of the deceased's death there was not a contingent liability in respect of the balancing charge.

In the House of Lords - October 26th, 1961

(Before Lord REID, Lord TUCKER, Lord BIRKETT, Lord HODSON and Lord GUEST)

It was held by the House of Lords (reversing the order of the Court of Appeal) (Lord Tucker and Lord Hodson dissenting) that liability to tax in respect of the balancing charge existed at the date of the deceased's death; and that a sum representing the reasonable estimate of it was deductible in ascertaining the net value of the company's assets for estate duty purposes.

PRESENTATION TO MISS ETHEL WATTS

High Spot of Women Chartered Accountants' Dinner

A presentation to Miss Ethel Watts, B.A., F.C.A., the first woman to qualify by examination as a member of The Institute of Chartered Accountants in England and Wales, and who retired from active practice in June this year, was the highlight of the annual dinner of the Women Chartered Accountants' Dining Society, held at the Connaught Rooms, London, on Friday of last week. The gathering of nearly one hundred was presided over by Miss J. Parry, F.C.A., of Lincoln, the Chairman of the Society.

Family Reunion

In proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Miss Parry said that every year the Dining Society was becoming more like a family reunion. It was a coincidence that the President of the Institute this year was from the provinces and she was the Society's first truly provincial chairman. Moreover, the President was from Nottingham where she had served her articles.

Miss Parry recalled that the Dining Society was formed in 1945 on the initiative of a small group of lady chartered accountants, led by Miss Ethel Watts. One of its chief aims was to try and alleviate some of the isolation of women members. It did not entirely succeed in this because of the long distances members had to travel from time to time in the early days, particularly where members from the provinces were concerned, and they had difficulty in filling the places on the committee reserved for provincial members.

Two years ago, however, the Dining Society made a foray into the Birmingham area and last year into the Manchester area, following which, groups of women members had been formed in those areas who met together and took an interest in girl articled clerks as did the London members.

Problem of Isolation

Miss Parry felt that in fact the problem of isolation was not confined to women members. Many district societies covered large areas and members were remote. She therefore welcomed the letter recently sent by the President to the district society presidents, in which he drew attention to the possibility of forming more local groups within district societies.

She felt that groups that could be formed where practicable would be of great benefit to those members who now had no contact at all with other members. One of the difficulties, of course, was to find a local member who would agree to become the focal point for the formation of a group.

'Our problems do seem at times to defy solution, and I sometimes feel that they are probably more extensive than some members of the Council realize. But there is a great deal in it if the difficulties are recognized and publicly discussed.'

'In the provinces we owe a great debt of gratitude to leading members of the Institute for all the time they give up for doing our thinking for us. We simply have not got the energy and the time to do our thinking ourselves.'

Responding to the toast, Mr P. F. Granger, F.C.A., President of the Institute, said that in its way, the

Dining Society was in the tradition of the Institute which was an amalgam of five societies of accountants in 1880; and at the present time they had no less than fourteen district societies, which in effect covered the whole of England and Wales, the Isle of Man and the Channel Islands.

On Being Married to a Chartered Accountant

In July last there were 350 women members of the Institute of whom 23 practised in London, 48 outside London, 201 were not in practice, 24 were abroad and 54 were euphemistically known as retired, but he suspected matrimony. He went on:

'As you know my wife is with me tonight and at the moment she might be described as bigamously married both to me and to the Institute. She can tell you a lot about arranging for laundry when away from home for long spells and the fact that I am clean and tidy tonight is due to her and her alone. (*Laughter.*) I am almost exactly half-way through my period of office and I do not know what I would have done without her - so far. Never having been a wife I do not know what it would be like to be married to a chartered accountant - I personally think they are very good chaps, generous, kindly, good at washing up, possibly a mixture of St Paul, St Francis of Assisi, Gary Cooper, Einstein - and a Hoover. (*Renewed laughter.*)

On a more serious note, the President continued:

'I am proud to think and to know that there are no restrictions on the entry of women into the Institute. Since the beginning of this century life has changed completely and in some ways greatly for the better. In no way has it changed for the better more than in the improved respect for the status of women. Fifty years ago a dinner such as this given by professional women would have been unthinkable and impossible, as would the toast of the two nations America and Britain with women proposing and replying.

'It is a commentary and a paradox on life that at a time when more and more women are obtaining their freedom (this is an ambiguity) throughout the world so many countries have been restricting freedom.

'Certainly as regards the work which our members do, I can see no reason why there need be any feeling of restriction on the grounds of sex. Our horizons are widening at such a rate that I have no doubt that our women members will continue to make their individual contribution to the future of this great Institute of ours.' (*Applause.*)

Presentation to Miss Watts

In asking the President to make the presentation to Miss Watts, Miss Parry said they all regarded her as the leading woman chartered accountant. She was the first woman to qualify as a chartered accountant after passing the examinations of the Institute. She was one of the initiators of the Dining Society and its first chairman. She was the first woman member to sit on the London District Society Committee. Miss Watts had also spent many years in practice which in itself had been a great encouragement to other women - particularly, said Miss Parry, to herself, for she recalled how she wrote to Miss Watts in her student days and received a most charming and helpful letter in reply.

The President then made the presentation which consisted of a portable radio with carrying case, a pen

and pencil set, and gift vouchers to the value of £25.

In thanking the Dining Society for the gifts, Miss Watts said she had thought of becoming a lawyer but it was Sir Harry Peat who suggested she should become a chartered accountant. She also recalled that in her undergraduate days she had attended the lectures of Dr Helen Cam, who was to speak later that evening. Women had some leaning towards the profession and she thought that – though as yet perhaps in a somewhat minor way – they did very useful work.

Proposing the toast of 'The Two Nations – America

and Britain' which was this year's theme of the occasion, Miss D. M. Vaughan, B.A., F.C.A., recounted some of her experiences and impressions during her tour of the United States last year. Dr Helen Cam, C.B.E., M.A., Litt.D., Fellow of Girton College, Cambridge, and formerly Emeritus Professor of History at Harvard University, responded.

The toast of 'The Guests' was proposed by Mrs M. E. Burgess, F.C.A., and the reply was made by Professor A. Newell (Franklin), M.A., senior lecturer of British-American Associates.

EXETER CHARTERED ACCOUNTANTS' DINNER

The annual dinner of the Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants was held at the Rougement Hotel, Exeter, on December 1st, presided over by the Chairman of the Branch, Mr R. H. T. Burgess, F.C.A.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Sir George Hayter-Hames, C.B.E., Chairman of Devon County Council, said that he would never fail to recommend the accountants' profession to any young man who wished to enter commerce or industry. 'Your profession is in much demand all over the world', he declared.

Mr Bertram Nelson, C.B.E., F.C.A., J.P., a member of the Council of the Institute, responded, and said that when he was Vice-President of the Association of British Chambers of Commerce, he heard much of Sir George's work as chairman of the Exeter Chamber of Commerce and of his interests in farming and fly fishing, and he knew something of the great work he was doing as chairman of Devon County Council.

He remembered very well a special form of collaboration which took place in Exeter four years ago – collaboration between the University, the Chamber of Commerce, the Exeter Branch, and many other bodies in preparing a report on 'Working and living in Exeter'.

Provincial Life

Mr Nelson said he was reminded of that report recently by hearing Frank O'Connor, the Irish writer, meditating on provincial life – his theory was that every provincial city, town, and village had a significant age at which young men and girls left because the community in which they lived no longer gave them liberty to grow. O'Connor saw in this movement a dangerous sign of the decline of provincial life, which he deplored.

What, asked Mr Nelson, could be done to maintain the richness of provincial life on which, in O'Connor's view, the health of western civilization depended.

He quoted the *Oxford Dictionary* definition of 'provincial' as 'having the manners or speech and especially the narrow views of the provinces; wanting the culture and polish of the capital'.

'There have been slander actions for less than that!' Mr Nelson commented, and went on to say:

'We must probably accept the economic dominance of London, Paris, New York; we must accept the certainty that in order to achieve a balance between talent and opportunity, people must move about. Professional men have, perhaps, a special responsibility for seeing that provincial life continues without abatement.'

He thought it would be found that whenever there

had been new vitality in the community there had been two factors present, both obvious, both simple, and both most difficult to attain.

The first was that there had been a sufficient number of men of influence and status and experience who were enthusiastically interested in new things. Four hundred years ago in Exeter it had been the Exeter ship canal; today it was, perhaps, in the growth of the university contemporary art, the new techniques of the professions, new solutions to the problems of poverty and international relations.

The promise was that if, and only if, old men saw visions, then young men would dream dreams as members of the same community.

Opportunities to Meet

Secondly, they of the provincial cities, towns and villages should use the special advantage which they had of knowing each other.

'Almost every major movement of the nineteenth century, almost every major thinker or writer, started in the provinces, because there were special opportunities for like minded men and women to discuss and experiment,' he said.

These two factors applied no less to The Institute of Chartered Accountants. It was important that the Council and Committee members should have vision and should encourage younger members to dream. It was important they should be interested in new concepts and opportunities.

The Mayor of Exeter, Councillor A. Peter Steele-Perkins, M.C., responded to the toast of 'The City and the County of the City of Exeter', and referred to the city's traffic problem.

He told the company that Exeter was going through a difficult stage of planning. He forecast that the work would make a tremendous difference to the flow of traffic.

The toast was proposed by Mr Hugh Park Q.C., Recorder of Exeter, who said that those who took office in the city had a high duty placed on them to uphold the traditions and skills which had been created by their predecessors.

The toast of 'The Guests' was proposed by the Chairman, Mr R. H. T. Burgess, who paid a special tribute to those who had added to the evening's enjoyment by speaking. He thanked the Mayor for attending commenting that he had attended 160 official dinners and luncheons.

Mr Kenneth Rowe, M.B.E., J.P., a prominent Exeter business man, and a former Sheriff of the city, responded to the toast.

BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' ANNUAL DINNER

For the first time in its history, the annual dinner of the Birmingham Chartered Accountant Students' Society, held this year at the Grand Hotel, Birmingham, on December 1st, was over-subscribed. The President of the Society, Mr S. B. Jackson, J.P., F.C.A., presided over nearly 450 members and guests.

The principal guest, Sir Edward Boyle, Financial Secretary to the Treasury, was prevented by parliamentary duties from attending. His place was taken by Mr J. H. Barwell, a Birmingham business man and a friend of Sir Edward's, at very short notice.

Mr Barwell proposed the toast of 'The Institute of Chartered Accountants in England and Wales' in an entertaining speech and Mr W. E. Parker, C.B.E., F.C.A., a member of the Council of the Institute, replied. Mr Parker spoke of the report of the Committee on Education and Training for the Profession, which is to be considered by the Council in the New Year. Nobody, he said, had more severely criticized that document than the Birmingham students.

Change of View

Mr Parker said that while the committee was sitting he found it fascinating to note the remarkable change of view which occurred when an articled clerk emerged from his articles and became a principal. He went on:

'While he is still in articles, everything is wrong. The remuneration, if anything at all, is totally inadequate. The work in the principal's office is quite unsuitable, and there is no proper planning or supervision of it. Study leave is wholly inadequate, and the means and methods of tuition are thoroughly unsatisfactory. In short, the whole thing is a disgrace to the profession.'

But if by some miracle of survival the articled clerk became a principal, his views about the articled clerk changed considerably.

'The articled clerk appears as a pampered creature who expects everything for nothing, always wanting time off, always grumbling. A wretched timekeeper in the office, thoroughly unsatisfactory in every way. In short, a blot on the professional landscape.'

No doubt, said Mr Parker, the truth lay somewhere between these two extremes.

A recommendation by the committee that was likely to prove most controversial, said Mr Parker, was that members who were contemplating taking an articled pupil for the first time should go through some sort of interview. When this suggestion was considered in one particular district it was turned down by the students' society - despite the fact that one would have thought it was intended for the benefit of articled clerks - and supported by the district society.

Mr Parker said he found that the members of the district society were people who already had articled clerks and therefore would not be required to attend an interview. 'But the chaps in the student society were people who would shortly become qualified and would be taking articled pupils themselves.'

Whether the committee had found the right answers, Mr Parker continued, time alone would show, but of one thing he was certain.

'In our profession, virtue itself finds its reward in this life, not in the next. I am not just thinking of monetary rewards, though these may be considerable, but of that virtue which consists of willingness to go and to do, without first considering what you can get from it.'

'This, as I see it, is the true mark of the professional man and of our Institute. What comes first is giving the services that are needed and what comes a long way second is the question of one's own reward. Articled clerks who put the most into their work get the most out of it. Take, and you will be disappointed. Give, and you will be rewarded.'

Proposing the toast of 'The Birmingham Chartered Accountant Students' Society', Mr A. C. Bryant, B.Sc., F.I.O.B., took advantage of the occasion to ride a hobby-horse of his, as he put it - the question of incentives to export. It was normal business practice, he said, for an employer who wished to increase output to offer incentives to his management and workpeople. If that was good in industry, why could not the Government offer incentives for increased export production?

Mr Bryant rejected the answer put forward by Government spokesmen that this would lead to a general subsidy on exports. The man who took the risks inherent in the export market ought to have an increased reward.

Later in his speech he earned a roar of laughter when, commenting on the students' hockey successes, he said: 'I don't know whether there is a moral in this, but you are obviously better at handling something crooked than something straight.'

Less Apathy

Replying, Mr R. B. S. Wood, honorary secretary of the Society, said there were signs that the apathy of former years was diminishing. As an instance, he quoted the residential summer course at Merton College, Oxford, which this year, like the dinner, had been over-subscribed for the first time. Attendances at the weekly lectures were increasing, although they still remained pathetically low - being only about 3 per cent of the membership. Mr Wood appealed to principals to encourage student activities, even when - as in factory visits - these had to take place during office hours.

Responding to the toast of 'Our Guests', which had been proposed by Mr D. G. Parkes, a Committee member, Mr E. J. Dodd, Chief Constable of Birmingham, spoke of the great help which accountants gave the police when cases of fraud were being investigated. He added: 'We have a dual responsibility to protect the public from those who are dishonest in financial dealings, and I assure you that we shall continue to work closely with you in matters of this kind.'

A toast to the President was proposed by Mr R. G. S. Anderson, a member of the Society's committee, and Mr Jackson replied.

For Students

CAPITAL GEARING

The long-term capital of a limited company may be raised by means of ordinary shares, preference shares, debentures, loans or mortgages carrying a charge on the assets of the company. It is usual to pay a fixed rate of dividend or interest in respect of capital raised in these ways excepting ordinary shares which receive the remainder of the profits after provision has been made for the fixed dividends or interest charges. The mode of capital structure adopted in any particular case and the proportions in which it may be desirable for the total capital to be represented by ordinary (equity) shares, preference shares or debentures must be determined by the circumstances of the company concerned.

The relation which the amount of ordinary capital bears to the prior (fixed) charge capital (i.e. preference capital and debentures etc.) is termed the 'gear ratio'. The gearing is said to be 'high' where the capital of the company consists of a large amount of prior charge capital and a proportionately small amount of ordinary shares. On the other hand, where there is a large amount of ordinary capital in relation to the prior capital the gearing is said to be 'low'. Thus the capital of a company which has in issue £100,000 ordinary shares and £10,000 5 per cent preference shares is low-g geared and the capital would be high-g geared if there were £100,000 5 per cent preference shares and £10,000 ordinary shares.

The capital gearing of any company is of particular significance whenever the effects of future profit fluctuations on equity capital come to be assessed either by or on behalf of an actual or potential investor or in connection with a possible takeover. It is quite easy, especially for the uninitiated, to draw misleading conclusions from the published rates of dividend paid on equity capital without taking into account the ratio of capital gearing. One must hasten to point out that

the gearing of the capital of a particular company could produce distortions as to its prosperity where this is to be determined merely by looking at the rates of dividend payable on equity capital.

The following illustration will serve to show how the gearing of capital affects the rate of dividend on equity capital. Assuming that there are divisible profits of (i) £12,000, (ii) £10,000 and (iii) £15,000 respectively in our example of a company whose capital is low-g geared, the rates of dividend would be as shown in Table A.

It is noticeable in this case that the rate of dividend paid on equity capital varies almost in the same manner as the variation in the amount of profit available for distribution. This, however, is not the case where the capital is high-g geared and indeed the most evident effect of high capital gearing is that the equity capital is acutely affected by profit fluctuations as can be seen from the illustration in Table B, assuming the same amounts of divisible profits.

The uninformed will quickly point out that high profits are earned since the equity capital receives dividend at rates of 70 per cent, 50 per cent and 100 per cent respectively, whereas it is quite clear that the profits available for distribution are the same and the rate of dividend on the total issued capital the same as in the case of the company with the low capital gearing. With regard to sensitivity to profit fluctuations we note that a decrease by 16½ per cent in the profit from £12,000 to £10,000 causes a drop of well over 28 per cent in the rate of equity dividend from 70 per cent to 50 per cent; similarly an increase in the divisible profit by 25 per cent from £12,000 to £15,000 results in an increase of nearly 43 per cent in the rate of dividend from 70 per cent to 100 per cent. Thus the rate of possible dividend on the ordinary shares in a company whose capital is high-g geared decreases or increases disproportionately to any fall or rise in profits.

In general, it may be said that the equity of a company with a reasonable prospect of earning steady profits which are likely to increase gradually may derive great benefit from high gearing of its capital. On the other hand, it is also the case that the equity capital has greater risk element where the gearing is high as the profits earned may not leave enough to pay an attractive equity dividend after providing for

Table A

			(i)		(ii)		(iii)	
			Per cent	Dividend £	Per cent	Dividend £	Per cent	Dividend £
£10,000 Preference Shares	..	..	5	500	5	500	5	500
£100,000 Ordinary Shares	..	..	11·5	11,500	9·5	9,500	14·5	14,500
<u>£110,000</u>			<u>10·9</u>	<u>£12,000</u>	<u>9·1</u>	<u>£10,000</u>	<u>13·6</u>	<u>£15,000</u>

Table B

			(i)		(ii)		(iii)	
			Per cent	Dividend £	Per cent	Dividend £	Per cent	Dividend £
£100,000 Preference Shares	..	..	5	5,000	5	5,000	5	5,000
£10,000 Ordinary Shares	..	..	70	7,000	50	5,000	100	10,000
<u>£110,000</u>			<u>10·9</u>	<u>£12,000</u>	<u>9·1</u>	<u>£10,000</u>	<u>13·6</u>	<u>£15,000</u>

the prior charge, especially interest on debentures etc. which must be paid whether or not profits have been made; even in the case of preference shares, the position is the same, as it would not be prudent to postpone the fixed dividend indefinitely in favour of the equity capital. This apart, it will be seen that increasing profit trends greatly enhance the value of the equity, as the slightest increase in the divisible profits causes a disproportionately large increase in the rate of dividend payable on the equity.

It is quite well known that share prices are normally influenced more by dividend experience than by any other single factor. Accordingly, it is not unusual for ordinary shares forming part of a highly-g geared capital structure to command a market value considerably out of relation to the present prosperity of the company. The value of such equity is further strengthened because of the substantial security they enjoy by way of assets cover. The reserves of a company, whether they be of capital or of revenue nature, belong to the equity shareholders, and when the equity capital is small in relation to the prior charge capital it is quite likely that the reserves are also much in excess of the equity capital. The result is that the ordinary shares enjoy a considerable assets cover which in extreme cases may be hundreds of times over the equity capital.

Another important factor is the big cover for dividends usually provided by undistributed profits. As the equity is comparatively small, dividends at considerably substantial rates absorb only a modest proportion of the profits.

Where the conditions are such that the risk capital enjoys prospects of substantial income returns and commensurate capital accretion, it is customary to issue the shares at a low nominal value, e.g. sixpence or a shilling. The low denomination obviates inconvenient 'heaviness' in the market price. A sixpenny share quoted at, say, £5 would not have the same degree of limited marketability as the corresponding quotation of £200 for a £1 share. If shares have been standing at an inordinately higher price than their nominal value there will probably come a time when the company is reconstructed and the nominal value of the equity shares is brought into closer relationship to current values, e.g. the sixpenny shares referred to may be exchanged for five ordinary shares of £1 each. This will enable the holders of the ordinary shares to realize their valuable holdings more easily.

One final point we should like to make concerns the burden of taxation borne by the shareholders. Whereas preference shares bear their due portion of income tax, the burden of profits tax falls upon equity holders. We do not suggest that this state of affairs is necessarily inequitable but the fact is inescapable that a small amount of equity capital ranking behind a substantial volume of priority shares bears the full impact of the profits tax. To this extent the attractions of equity shares in a highly-g geared capital structure are somewhat diminished.

The experience of many large and successful companies indicates a tendency, when a highly-g geared capitalization results in the equity achieving the most sanguine hopes of appreciation in market values, to replace this type of structure by a more balanced gearing. It would seem that there is an indefinable point beyond which a highly-g geared capital structure breaks down.

TAXATION

Question

A limited company which had formerly made up its annual accounts to September 30th changed the accounting date to June 30th in 1961. The change has been accepted by the Inland Revenue authorities.

The profits, as adjusted for income tax purposes, are as follows:

	£
Year ended September 30th, 1959	54,596
Year ended September 30th, 1960	38,644
Nine months ended June 30th, 1961	34,602

You are required to calculate the adjusted assessments for 1961-62 and 1962-63 in accordance with the normal practice of the Board of Inland Revenue.

Answer

As the change in the accounting day has been accepted by the Inland Revenue authorities, the assessment for the year 1962-63 will be based on the profits for the year ended June 30th, 1961, viz.:

$$3/12\text{ths} \times £38,644 + £34,602 = £44,263.$$

If the Inland Revenue exercised their right to revise the assessment for the previous year, 1961-62, by reference to the 'corresponding period', i.e. the year ended June 30th, 1960, the revised assessment for that year would be:

$$3/12\text{ths} \times £54,596 + 9/12\text{ths} \times £38,644 = £42,632$$

as compared with £38,644 based on the profit for the year ended September 30th, 1960, thus involving an additional assessment of £3,988.

The additional assessment, however, is subject to a limitation of £1,961 computed as follows:

The profits of the accounting periods which enter either wholly or in part into the computation of the original or revised assessments for 1961-62 and 1962-63 are:

	£
12 months ended September 30th, 1959	54,596
12 months ended September 30th, 1960	38,644
9 months ended June 30th, 1961	34,602
<u>33 months</u>	<u>£127,842</u>

The assessments affected by the profits of these accounting periods are those for the *three* years 1960-61 to 1962-63. Hence the profits are equivalent to an average rate of profit for thirty-six months of:

	£
$\frac{36}{33} \times £127,842$	139,464
Assessment for 1960-61	£54,596
Assessment for 1962-63	44,263
	<u>98,859</u>
Balance to be assessed for 1961-62	40,605
Deduct Original assessment for 1961-62	38,644
Additional assessment	<u>£1,961</u>

Notes and Notices

PROFESSIONAL NOTICES

MESSRS WALLACE CASH & Co, Chartered Accountants, announce that they have taken into partnership Mr M. A. BRAHAM, A.C.A., and that they have moved their offices to Hillgate House, Old Bailey, London EC4.

MESSRS CHARLES DOLBY & SON, Chartered Accountants, of 11 Dale Street, Liverpool 2, announce that they have admitted to partnership Mr LAURENCE KEIGHLEY, A.C.A., a member of their staff who had previously served his articles with them. The style of the firm remains unchanged.

MESSRS ALAN COOPER & Co, Chartered Accountants, announce that they have opened an office at 41A Walm Lane, Willesden Green, London NW2, Telephone: Willesden 8386.

MESSRS GIMSON & Co (succeeding HERBERT GIMSON & SON) announce that as from October 1st, 1961, they have acquired the practice previously carried on by Mr HAROLD OXBORROW and Mr PERCIVAL W. OXBORROW under the name of OXBORROW, SONS & Co. They also announce that on October 1st, 1961, Mr HERBERT GIMSON retired from the firm and that Mr HENRY PHILIP CARTER, B.A., F.C.A., was admitted to partnership. In view of Mr HERBERT GIMSON's retirement the firm is now known as GIMSON & Co. Mr HERBERT GIMSON continues as consultant to the new firm and the office at 46 Ladbroke Square, London W11, will be maintained under his supervision until December 31st, 1961, when the practice will be transferred to Charterhouse, London EC1.

Mr CHARLES H. HILLS, F.C.A., practising under the name of BLACKHAM & HILLS, Chartered Accountants, at Ruskin Chambers, 191 Corporation Street, Birmingham 4, announces that he has taken his son, Mr ANTHONY JOHN HILLS, A.C.A., into partnership as from December 1st, 1961.

MESSRS FRANK HISCOCKS & Co, Chartered Accountants, announce that they have become associated with MESSRS WILSON, DE ZOUCHE & MACKENZIE and that Mr K. R. MACKENZIE, F.C.A., and Mr R. B. DE ZOUCHE, A.C.A., of that firm, have been admitted into partnership. They also announce that their address is now 115 India Buildings, Liverpool 2. Telephone: Central 5887-8.

MESSRS MCCLELLAND, MOORES & Co, Chartered Accountants, Glasgow, announce that Mr JOHN GOODWIN, C.A., has retired from the firm.

Mr C. R. STEPHENSON, F.C.A., and Mr J. B. CHARLES, F.C.A., announce that as from January 1st, 1962, they will practise in partnership as STEPHENSON, CHARLES & Co,

Chartered Accountants, at 40 West Street, Reigate, Surrey, in continuance of the practice hitherto carried on by Mr STEPHENSON at 38 Bell Street, Reigate. Mr CHARLES will continue his consulting practice from 52 Grosvenor Gardens House, Grosvenor Gardens, London SW1.

MESSRS THOMSON, GREGORY, THOL & Co, Chartered Accountants, of 60 St Paul's Churchyard, London EC4, MESSRS BUTLER, VINEY & CHILDS, Chartered Accountants, and MESSRS J. PRIESTLEY, SON & Co, Chartered Accountants, of the same address, announce with deep regret the death of Mr DUDLEY HOWARD PRATT, B.A., F.C.A., on November 19th. The two practices first named above will be continued by the surviving partners and arrangements are being made to deal with the last named practice which was carried on solely by Mr PRATT.

MESSRS WHITEHEAD & ALDRICH, Chartered Accountants, of 4 Chapel Street, Preston, announce with deep regret the death, on December 1st, of their senior partner, Mr STEPHEN READ ALDRICH, F.C.A., who became a partner in 1924 and remained in practice until his death.

MESSRS WRIGHT, FAIRBROTHER & STEEL, Chartered Accountants, of 42 Bedford Avenue, London WC1, announce that Mr HERBERT C. BUNN, who has been a partner for almost forty years, has retired from the partnership as from September 30th, 1961, but continues to be associated with the firm as a consultant.

Appointments

Mr J. T. Davey, F.C.A., formerly group secretary of The Pulsometer Engineering Co Ltd, has been appointed chief accountant of Associated Rediffusion Ltd.

Mr Reginald O. A. Keel, F.C.A., financial director of the Heinemann Group, is being appointed managing director of Heinemann Publishers Ltd.

Mr M. G. T. Rice, F.C.A., has been appointed an additional director of Dalgety and New-Zealand Loan Ltd, following the merger of Dalgety and Co Ltd with New Zealand Loan and Mercantile Agency Co Ltd.

Mr F. Robinson, F.C.A., secretary of J. W. Cameron & Co Ltd, has been appointed a director of the company.

Mr J. W. Seddon, F.C.A., A.C.W.A., administrative director of Revlon International Corporation, British Branch, has been appointed budget manager of Revlon Inc., U.S.A.

Mr Ronald Fitch, A.C.A., has been appointed chief accountant at the Trafford Park works of the Lancashire Dynamo & Crypto Co Ltd.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Mr A. H. Holmes, A.C.A., secretary of Richard Sutcliffe Ltd, has been appointed a director of the company.

Mr P. V. Walker, A.C.A., has been appointed chief methods accountant to the General Electric Co Ltd.

Mr H. R. Sykes, M.A., LL.B., C.A., has been appointed treasurer of the Steetley Co Ltd.

OBITUARY

Dudley Howard Pratt, B.A., F.C.A.

We have learned with regret of the death on November 19th, of Mr Dudley H. Pratt, B.A., F.C.A., who was in practice under the style of J. Priestley, Son & Co, Chartered Accountants, and senior partner in the firm of Thomson, Gregory, Thol & Co, Chartered Accountants and a partner in the firm of Butler, Viney & Childs & Co, Chartered Accountants, all of London. He was also an underwriting member of Lloyd's.

Educated at Charterhouse and Jesus College, Cambridge, Mr Pratt was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1926 and was elected to fellowship in 1935. He was for many years a member of the Chartered Accountants' Golfing Society, and a former captain of the Reigate Golf Club.

Norman Struthers, F.C.A., F.C.I.S.

It is with regret that we record the death on November 27th, at the age of 63, of Mr John Norman Struthers, F.C.A., F.C.I.S., senior partner in the firm of Beever & Struthers, Chartered Accountants, of Manchester.

Admitted to membership of the former Society of Incorporated Accountants in 1926 he was articled to the late Mr J. W. Beever whose practice he continued in the name of Beever & Struthers.

Mr Struthers served in the First World War; was a member of the Cheadle and Gatley Urban District Council from 1929-1932, and served as a committee member and librarian of the Manchester and District Incorporated Accountants' Society for several years during and shortly after the Second World War.

NEW E.C.G.D. SECRETARY

Mr A. E. Percival, C.B., has been appointed Secretary of the Export Credits Guarantee Department with effect from January 1st next, in succession to Mr L. J. Menzies who is resuming his duties at the Bank of England. Mr Percival has been an under-secretary in the department since 1958.

DOUBLE TAXATION: UNITED KINGDOM AND ARGENTINA

Preliminary discussions about the question of a comprehensive double taxation agreement between Argentina and the United Kingdom were held in London on November 27th and 28th, between representatives of the Argentine Ministry of Finance and the Board of Inland Revenue. It is hoped to continue the discussion some time in the New Year.

OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade have announced that as from December 4th, 1961, Mr Wilfred Whitehead has been appointed Official Receiver for the Bankruptcy District of the County Courts of Croydon, Guildford, Kingston upon Thames, Slough and Wandsworth, and that Mr Rex George Goddard has been appointed Official Receiver for the Bankruptcy District of the County Courts of Aylesbury, Banbury, Brentford, Chelmsford, Edmonton, Hertford, Newbury, Oxford, Reading, St Albans and Southend.

THE INSTITUTE OF ACTUARIES' YEAR-BOOK

The 1961-62 Year-Book of The Institute of Actuaries shows that membership of the Institute at July 31st, 1961, totalled 2,347 - an increase of 99 on the previous year's figure. An analysis of the membership shows that 1,029 were Fellows, 406 Associates and 912 Students. Of the 1,029 Fellows, 453 were with British Assurance Offices, 55 in consulting practice, 45 in industry and commerce, and 29 in Government service; out of the remaining 447, 276 were employed overseas - the majority with Dominions and foreign assurance companies and in Government service.

THE DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS

Lord Killanin spoke on 'Ireland - the Olympic Games', at a meeting of The Dublin Society of Chartered Accountants held on December 7th, at 1 p.m. Among future meetings arranged by the Society are:

December 19th, 1 p.m.: Luncheon meeting. Speaker: The Earl of Longford, Chairman, National Bank Ltd.

January/February (date to be arranged) 1962, 1 p.m.: Luncheon meeting. Speaker: Mr Eamonn Andrews, Chairman, Telefis Eireann.

February 6th, 1 p.m.: Luncheon meeting. Speaker: Mr Charles J. Haughey, T.D., F.C.A., Minister for Justice.

February 16th, 9 p.m.: Annual dance, the Gresham Hotel.

April 3rd, 6 p.m.: 'How to make money on the stock exchange', by Mr Kenneth S. Most, LL.B., F.C.A.

May 4th, 7 p.m.: Annual dinner - *Industrial and Administrative Group*.

May 5th: Institute's annual general meeting.

May 26th-28th: Institute's golf meeting - Rosses Point.

Students' Group

The following meetings are among those which have been arranged for the Students' Group:

December 13th, 9 p.m.: Students' dance - Grand Hotel, Malahide.

January 11th, 1962, 5.45 p.m.: 'Forms of published accounts', by Mr H. W. Robinson, F.C.A.

January 25th, 11 a.m.: Visit to the Stock Exchange.

February 8th, 5.45 p.m.: 'The capital allowances for income tax', by Mr J. Charleton.

February 10th: Rugby match v. London Society (away).

February 14th, 2 p.m.: Punched card machine accounting demonstration.

March, 1st, 5.45 p.m.: 'Viva' competition.

March 15th, 5.45 p.m.: 'Costing' by Mr F. T. Hunter, F.C.A.

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**THE CHARTERED ACCOUNTANT
STUDENTS' SOCIETY OF LONDON****Next Week's Meetings**

The following meetings of the London Students' Society will be held during next week:

Monday, 6.30 for 7 p.m. at Grosvenor House, Park Lane, W1 - Annual Dinner.

Bedfordshire Branch Annual Dinner.

Wednesday, 5.30 p.m. at the Institute: concluding lecture in the Mechanized Accounting Course by Mr Dudley W. Hooper, M.A., F.C.A., chief organizing accountant, National Coal Board.

Friday, 12 (midnight) at the Lyceum, Wellington St, London WC2 - Christmas Dance.

A pocket diary for 1962 for London Articled Clerks is on sale at the Students' Society Library, Spencer House, South Place, London EC2. Price 3s 6d (by post 4s).

THE AGE OF THE COMPUTER

'The implications of automatic data processing' was the subject of a talk given recently by Mr C. G. S. Jennings, F.C.W.A., to a joint meeting of the Croydon Branch of The Institute of Cost and Works Accountants and the South London Branch of The British Institute of Management. Mr Jennings said that in the next decade it had been estimated that machines would make some 300,000 clerical workers redundant, but the electronic age would create new demands of a more specialized nature, and the changes were not likely to create actual unemployment except in respect of some classes of later age groups.

The way was opening up, he said, for the fascinating possibilities of the elimination of routine clerical work, and the day would come when the written word was no longer required, communication being achieved by speech only, which could be recorded and reproduced at will. Filing could be abolished, typists would not be needed, and much of the population would not even need to learn to read and write. On the other hand, for the technicians to build and maintain the machines and for the managers who would control them, a much more specialized education than is provided at present would have to be available.

The speaker left his audience with the depressing impression that James Orwell's age of 'Big Brother' might be even nearer than 1984, but perhaps there was a twinkle in his eye as he ended by quoting an opinion recently expressed that 'if we survive long enough we shall probably arrive at an age fit for computers to live in!'

INSTITUTE OF INTERNAL AUDITORS**Manchester Chapter**

The Manchester Chapter of the Institute of Internal Auditors is holding its next meeting on December 12th, at Patten Arm Hotel, Warrington, when Mr J. H. Nuttall, F.C.A., secretary, The Pilkington Bros Ltd Superannuation and Pension Funds, will address the Chapter on 'The State Graduated Pension and its impact on private pension schemes'. Further information regarding the activities of the Chapter may be obtained from the secretary, Mr K. Bradley, assistant internal auditor, The Associated Octel Co Ltd, Northwich, Cheshire.

Birmingham Chapter

A meeting of The Birmingham Chapter of the Institute of Internal Auditors will be held on December 14th at the Chartered Auctioneers' and Estate Agents' Institute, Regent House, St Philip's Place, Colmore Row, Birmingham 3, at 6.30 p.m. when Mr Paul H. A Nutt, of the General Electric Co Ltd, will speak on 'Internal auditing in practice'. The Chapter secretary is Mr R. C. J. Lucas, West Midlands Gas Board, 39-41 Hagley Road, Birmingham 16.

Yorkshire Chapter

The next meeting of the Yorkshire Chapter of The Institute of Internal Auditors will be held next Tuesday at the National Coal Board, Area No. 7 Headquarters, Newton Hill, Wakefield, commencing at 7 p.m. when the speaker will be Mr R. Forbes, D.F.C., Assistant Bursar, University of Leeds, who will be speaking on 'University accounting and the bursar's department.'

The Secretary of the Chapter is Mr A. E. Gardner, divisional internal auditor, National Coal Board, Ellers Road, Bessacarr, Doncaster.

ANNOTATED TAX CASES

Part 5 of Volume XL of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is published today and contains reports with notes on the judgments of the following cases: *Brown v. Bullock* (C.A.); *Henry Ansbacher & Co v. C.I.R.* (C.A.); *Freedland v. Jenkinson* (C.A.); *Hood Barrs v. C.I.R.* (H.L.); *Mitchell v. Ross* (H.L.); *North of Scotland Hydro-electric Board v. C.I.R.* (H.L.); *Godden v. A. Wilson's Stores (Holdings) Ltd* (Ch.D.); *Hibbert v. Fysh* (Ch.D.); *McKie v. Warner* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 50s post free; the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

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The Revenue Replies

IN our issue of August 5th last, under the heading 'The Revenue on the Carpet', we reviewed the *Seventh Report from the Estimates Committee (Session 1960-61)* (H.C. 245) wherein the Board of Inland Revenue were somewhat taken to task. As briefly noted in last week's issue, the Revenue have now 'replied' to the criticisms made against them, their observations having been published as the *Third Special Report from the Estimates Committee (Session 1960-61)* (H.M.S.O., 8d).

In all big organizations there is a tendency to lose sight of the wood because of the trees; to carry out operations by sheer force of inertia long after the utility or advisability of such operations has ceased. The Estimates Committee made a very strong recommendation on the question of costing the administration of the different taxes and schedules. To this the Inland Revenue reply that there is little difficulty in the costing of the operations and work processes carried out in the Department; it is already done. The difficulty is to apportion the cost of an operation that is part of the process of assessment or collection of more than one tax, or of tax under more than one schedule. They point out that profits are computed both for income tax and for profits tax and say there is no logical basis on which the cost can be apportioned between the two taxes. An arbitrary rule-of-thumb basis would be valueless. Subject to this, according to the Inland Revenue, 'every effort is made to ascertain and publish the cost of collection of the different taxes'. As an earnest, the Department points out that the figures for death duties and stamp duties were first published in the Board's annual report for the year ended March 31st, 1959. As the administration of these two taxes is dealt with by separate branches, this can hardly have been a very difficult exercise in costing. The costs of persons outside the Department are not included. When one is considering the utility of a particular tax, it is perhaps relevant to take into account its cost to the nation as a whole.

The Estimates Committee singled out Schedule A as being particularly costly, and the Revenue now report that they are 'reviewing the method of collecting . . . to see whether any economies can be made'. They go on to remind the Committee that the yield is based on pre-war annual values. This reminder would seem to be unnecessary as the Committee's recommendation itself contained the sentence: 'Due to war conditions and post-war difficulties there has been no revaluation of property for Schedule A since 1936.' The Inland Revenue then refer to the collection of excess rents liability under which two bites are

made at the cherry every year. Again, with owner-occupied property, the difference between the current value and the assessed value escapes tax. This is unavoidable in the case of old property, but the Inland Revenue have power to assess new property at its full value – a power which they do not exercise.

In its report, the Committee said the Department was unable to supply a firm figure of cost of collection of Schedule A tax. The net product (after maintenance relief) was £103 million in 1958–59, and the appropriate cost of collection was £4.4 million. The Committee report went on:

‘Although some of the liability under Schedule A is dealt with under P.A.Y.E. coding and the total yield of Schedule A may be as much as £140 million, the full cost of collection includes an amount not directly charged under Schedule A and additional to the £4.4 million cost quoted. The percentage cost of collecting Schedule A in relation to its yield (about 4 per cent) is probably about three times as high as the relative cost of collecting the other taxes administered by the Inland Revenue department.’

The Revenue observations on this repeat that it is not possible to split the cost of the coding between Schedule A and Schedule E.

The Committee recommended that the Inland Revenue should examine the proposals submitted by the Association of H.M. Inspectors of Taxes. The Association had proposed that the number of higher posts be increased, that the number of higher grade inspectors be increased to cope with back duty work, that initial salaries be improved and that delays in appointment by the Civil Service Commissioners should be eliminated. Without committing itself to details to these proposals, the Committee was convinced of the importance of maintaining the tax inspectorate at full strength. The Committee recalled that the Bamford Committee in 1950 recommended that the inspecting officer system in tax districts should be strengthened, a recommendation which has yet to be fully implemented. The Estimates Committee agreed with the Association that the present inspection areas are too large to permit inspecting officers to fulfil their duties effectively. The Revenue reply as follows:

‘Most of the proposals made by the Association have been examined in the past and some modest improvements in pay and grading at the top of the inspectorate have recently been made. The Board are fully aware of the need to secure increased

recruitment of graduates and they will re-examine the Association’s proposals in this connection.

‘The Board have examined these matters on a number of occasions in the past and a small increase in the number of inspecting officers has recently been made. The Board will, however, examine the matter again in the light of the Committee’s recommendation.’

The Inland Revenue welcome the suggestion that all income tax assessments be made by local inspectors rather than the local General Commissioners. In contrast, to the recommendation that the power to make profits tax assessments should be transferred from the Board of Inland Revenue itself to local inspectors, the Board express no welcome but merely observe that the change would require legislation and that they will bring the recommendation to the notice of ministers. It would be interesting to know what was originally the object of providing that the process of profits tax assessment should be divided between two offices, which may be hundreds of miles apart. The same criticism can be made of surtax administration. Here again the Board laconically observe that they will ‘re-examine the question of decentralizing surtax’.

The only strong objection to such decentralization comes from the staff of the Special Commissioners who naturally do not wish to be uprooted. Whether this consideration should be allowed to stand in the way of such an obviously beneficial rationalization of the system is perhaps a matter for the Government. Of course, there would still be a central office for limited purposes, possibly including surtax directions which are essentially a separate matter on which the necessary expertise can be confined to a small number of specialists.

The Committee recommended that an early opportunity should be taken of amending the law to allow taxpayers to elect to have notices relating to taxation sent to their agents. The Committee said (we hope not too optimistically) that the adoption of this recommendation would save the time of inspector and taxpayer by ensuring that prompt attention is given to correspondence. The Inland Revenue observe (as was implicit in what the Committee said) that the law at present places the obligations on the taxpayer, not his agent. They are naturally concerned that the taxpayer should not be able to shelter behind his agent.

COMPARATIVE TAXATION

Company Profits and Dividends

by A. DALE, F.A.C.C.A.

THERE are at least two important reasons, one internal and the other external, which make a review of the system of taxing company profits and dividends in the United Kingdom particularly appropriate at the present time. First, we have seen in the last two Finance Acts a Conservative Government raise the rate of profits tax in spite of strong representations by industry and commerce that it is a bad tax which ought to be completely repealed. Secondly, Britain's ever-closer economic ties with other countries, and especially any association in the European Common Market, must inevitably result in increased harmonization of tax laws. Some consideration may well be given, therefore, as to whether Britain's present system is serving the community in good stead nationally and how it compares with systems in force in other countries.

Traditional United Kingdom Principles

So far as income tax is concerned the basic principles laid down in Addington's Income Tax Act of 1803 and re-enacted in the Income Tax Act of 1842 still stand. In accordance with Section 184 of the Income Tax Act, 1952, companies are assessed on their profits before deduction of dividends and are entitled on payment of dividends to deduct tax therefrom. The income tax charge on companies has, therefore, always been a part of the system of taxation at the source. The company in whose hands the income first arises pays the tax and recoups itself when distributing the income to its shareholders. In the nineteenth century this was a straightforward, uncomplicated process due to three factors:

- (i) There was then no progression as we know it, so that the tax paid by the company was the same as the tax payable by the shareholders on their shares of the profits.
- (ii) Companies were commonly regarded as large partnerships. (The first edition of *Lindley on Companies* published in 1860 was entitled 'A treatise on the law of

companies considered as a branch of the law of partnership'.)

- (iii) It was the general practice of companies to distribute the great bulk of profits earned.

When supertax was introduced in 1910, these factors had ceased to apply and some re-thinking was necessary. For distributed profits the position was still understandable. The tax paid by the company was, in effect, a payment on account of the ultimate liability of the shareholders. Wealthy shareholders had a further amount to pay and others might be entitled to a refund. For undistributed profits, however, the position had become much more controversial. The tax paid by the company on these profits could only by rare coincidence equal the total tax which would have been due from the shareholders had the profits been distributed, and even then the question remained as to whether it was reasonable for the less wealthy shareholders to subsidize the supertax payers. These problems have never been satisfactorily resolved and are closely linked with those arising from the charge of profits tax.

The Profits Tax Complication

Profits tax is now charged at a flat rate on company profits before deducting dividends and a company is not entitled to deduct the tax when paying dividends. It is therefore quite out of line with traditional principles. When Mr Neville Chamberlain was called upon in 1937 to explain why the tax (then known as National Defence Contribution) was being imposed he made the frank admission that, 'It seemed to me the natural thing was to go where the money was'. Since then a succession of Chancellors of varying mien, temperament and political leaning have managed to emulate this example of 'doing what comes naturally'. It seems that when funds are needed and no votes are at stake principle and equity are out of place.

The tax is now charged at a notional rate of 15 per cent but it is not sufficiently appreciated that the effective rate is much higher than this, as is shown by the following figures:

<i>(a) Assuming no profits tax payable</i>			
Profits	£	£	
Income tax payable ..	100.00	38.75	
	<hr/>		
Distributable profits ..	61.25		
	<hr/>		
Gross dividend	100.00		
Income tax deducted ..	38.75	38.75	
	<hr/>		
Net dividend	61.25		
	<hr/>		
Net tax payable		—	
<hr/>			
<i>(b) Assuming profits tax payable at 15 per cent</i>			
Profits	£	£	
Profits tax payable 15.00	100.00		
Income tax payable 38.75			
	<hr/>	53.75	53.75
	<hr/>		
Distributable profits	46.25		
	<hr/>		
Gross dividend	75.51		
Income tax deducted ..	29.26	29.26	
	<hr/>		
Net dividend	46.25		
	<hr/>		
Net tax payable		24.49	
	<hr/>		

The incidence of profits tax results therefore in a tax charge of 24.49 per cent even if all the available profits are distributed.

Other Countries' Systems

(1) The Commonwealth

The Model Income Tax Ordinance drafted in 1922 (H.M.S.O. Cmd. 1788) on which most colonial income tax laws were originally based adopted the traditional British principle, and so far as the remaining colonies are concerned there have been few changes, except in detail. Most of the other countries in the Commonwealth have, however, broken away and introduced different systems. Canada, Australia, New Zealand, India, Pakistan and Ceylon all charge tax on company profits and on dividends as if they were quite separate sources of income. Canada has, however, in recent years partially relieved the double taxation by allowing shareholders to deduct from tax payable 20 per cent of any dividends received from resident taxable companies.

(2) Common Market Countries

In France, the Netherlands, Luxemburg and the Federal Republic of Germany, tax is charged on both company profits and on dividends, but the rate of tax charged in Germany is reduced from 51 to 15 per cent in the case of distributed profits. Italy charges company tax and income tax on

company profits and surtax, but not income tax again, on dividends. In Belgium, companies are subject to business tax on undistributed profits and to *taxe mobilière* and national crisis contribution on dividends. The *taxe mobilière* is deductible on payment of dividends which must be included in income subject to complementary personal tax.

France, the Netherlands and Luxembourg have full double taxation, therefore, but Germany and Italy ease the burden to some extent. Belgium is much nearer to the United Kingdom system.

(3) E.F.T.A. Countries

Austria, Denmark, Norway, Sweden and Switzerland have full double taxation of company profits and dividends. Portugal has its own peculiar taxation system which defies comparison with any other.

Finland (associated with E.F.T.A.) charges income tax on company profits, and shareholders are also subject to income tax on dividends but a credit of 15 per cent of the dividends is granted against the tax charged.

(4) U.S.A.

U.S.A. charges income tax on company profits, and shareholders are normally subject to income tax on dividends. This results in a very high total rate of taxation. If, for example, a shareholder is liable to tax on dividends at 38.75 per cent (equivalent to the United Kingdom standard rate) the total rate is over 70 per cent:

		\$	\$
Corporation profits	100		
Tax at 52 per cent	52	52	
	<hr/>		
Dividend	48		

Shareholder's liability \$48 at 38.75 per cent = 18.6

70.6

Since 1954 the first \$50 of dividend income has been exempt and a credit of 4 per cent of the dividends is allowed against the tax on dividend income in excess of \$50. This was intended as a step along the road towards the elimination of double taxation but it was a very small, hesitant step. No further advance has been made and it has even been suggested recently that the existing reliefs should be withdrawn.

British System Compared with Other Countries

These brief summaries of other countries' systems show that the double taxation of company profits and dividends is widespread, although a few countries have made some attempt to ease

the burden. The reliefs granted by U.S.A. and Canada, in particular, were a promising beginning but the pressing demands for more revenue to match increased Governmental expenditure have halted further progress. In fact expediency rather than principle seems to govern action in most countries.

What is surprising is that the very heavy total weight of taxation on company profits and dividends, and the apparent inequity as compared with non-incorporated traders, seems to be accepted without a great deal of protest. This leads one to wonder whether all the load is in fact borne by the companies and shareholders or whether part of it is passed on to other shoulders. This may, in fact, be the core of the whole problem. To what extent is company taxation passed on to the consumer in the price of goods and services?

The most important figure to management and shareholders in companies' accounts is the amount of net profits available for distribution. If this figure is considered to be an adequate return on capital employed, enabling sufficient reserve appropriations to be made and reasonable dividends to be paid, all is well. If not, something has to be done about it. Where, therefore, heavy taxation reduces the net profits below a satisfactory figure there will be a determined attempt to restore the position, and increased selling prices may well result. The full increases needed would probably not be made overnight as in the case of recognized indirect taxes such as tobacco duties but as circumstances permitted there would be an upward trend.

Some economists claim, with the support of the 1927 Colwyn Committee Report, that taxes do not affect prices. Their argument is that prices are determined by the marginal firms. Such firms make no profit and pay no taxes and the prices they charge are not therefore affected by tax considerations. To most business men and economists such arguments are divorced from reality.

It is quite likely then, that to some extent at least company taxation is passed on to the consumer. Internally, therefore, it operates, in effect, as a general sales tax on almost the whole range of goods and services, including necessities as well as luxuries. Provided everyone concerned realizes that this is happening and considers the consequences, this may be supportable. The really vital matter is the effect on the prices of goods and services supplied to overseas customers. Whereas a true indirect tax can be levied on goods consumed internally, leaving the prices of

exported goods unaffected, the passing on of company taxation affects both. Instead, therefore, of offering tax incentives to exporters, as has been advocated frequently in recent years, the Government is penalizing them.

What Should Be Done?

This is a most complicated and controversial field and whatever system is in force must be a compromise between equity, Revenue needs, economic consequences, administration considerations and so on.

The majority of the Royal Commission on the Taxation of Profits and Income maintained that it is wrong to subject shareholders to tax liability on dividends in any way that altogether ignores the fact that tax has been paid on the profits from which the dividends are drawn.

There is a very strong case, therefore, for the abolition of profits tax and the raising of the same amount of revenue (assuming this to be necessary) in such a way that export prices will not be affected. This could be done, for example, by the introduction of a general sales tax, by a tax on fixed-odds football pool betting or by the extension of purchase tax to further categories of non-essentials such as sweets, chocolate, ice-cream and soft drinks.

So far as income tax is concerned there is, as we have seen, no problem to the extent to which company profits are distributed to shareholders. The individual shareholders are ultimately in the same position as non-incorporated traders.

There remains the problem of retained profits which at present suffer tax at the standard rate of 7s 9d in the £. It would be inequitable for these profits to escape taxation altogether since increases in share values are not taxable. In theory, there is something to be said for charging the company with the amount of tax which the shareholders would have had to pay had the profits been distributed, but this is quite impracticable, and inequitable as between particular shareholders since the effect would be to charge them all through the company at one composite rate of tax. Wealthy shareholders would still be subsidized by poorer shareholders. To charge tax at any rate other than the standard rate would also cause serious complications in connection with the treatment of charges and preference dividends and continuous records of profits, dividends and tax rates would have to be kept. The balance of advantage and disadvantage seems, therefore, to lie in the continuance of the present charge of income tax on retained profits at the standard rate.

National Insurance Jubilee

by R. ROBERT, A.C.I.S.

COMPARATIVELY few readers will remember Britain as it was half a century ago, at the end of the Edwardian era. The veterans, however, will be well aware that, in 1911, there existed a great mass of poverty – the contemporary term was ‘pauperism’ – about two-thirds of it due to unemployment and one-third to sickness. In addition, there was an appalling amount of near destitution, affecting both town and country.

The idea of social insurance to cover the worker’s economic hazards was not new in Europe, for Germany had passed a law for sickness insurance as far back as 1883, and Bismarck may be regarded as the true father of all such legislation. He acted, of course, from political rather than altruistic motives, for he had a restless and intelligent proletariat to keep quiet.

After 1883 other countries adopted social insurance schemes based on, though not necessarily following, the German pattern. Britain was one of the last to do so.

The Lloyd George Scheme

The Bill for National Health and Unemployment Insurance was introduced by Mr Lloyd George, then Chancellor of the Exchequer, on May 4th, 1911 – health insurance having a compulsory and a voluntary section. Compulsory deductions from wages of all the employed who earned a weekly wage or an income below the income tax limit of £160 per annum were proposed, with the employers and State making further contributions. Soldiers, sailors, teachers, and certain classes of casual labour were exempt, as were persons employed under the Crown or by municipalities and who received pay when sick.

There was to be only one scale of deductions for all classes – 4d per week per man and 3d for women, the employer paying 3d per week per worker, whether male or female. The State was to pay 2d per worker and hoped to recoup itself indirectly by the increased prosperity and contentment of the people. Contributors to the scheme were to receive free medical treatment from ‘panel’ doctors, and sick benefit of 10s per week conditional on obeying doctor’s orders.

Old-age pensions, it is important to mention, had already started in 1908 and were costing the Government £13 million a year.

Misgivings

The funds for the new insurance scheme, it was proposed, should be collected by stamps affixed to cards by workman and employer respectively. Benefits were to be dispensed through the approved societies and mutual benefit societies, providing they had at least 10,000 members, were self-governing and subject to valuation of assets.

The Unemployment Insurance scheme applied only to about one-sixth of the industrial population – mainly the engineers and builders – and the benefit of 7s per week was to be administered through Labour Exchanges which would check malingering by offering jobs.

All parties appear to have responded favourably to the Chancellor’s appeal and the Bill (containing eighty-seven clauses and nine schedules) was introduced amid cheers. Later it had a rough passage – objections were raised against it and innumerable amendments suggested. Employers protested that they could not afford to shoulder the extra burden. There was opposition from the medical profession and from many of the hospitals. Sections of the black-coated workers also voiced their disapproval.

Despite this barrage of criticism, the National Insurance Bill had a third reading and passed the House of Commons on December 6th, 1911. Mr Ramsay MacDonald, Labour Member for Leicester, said that, though sharing the widespread misgivings, he believed it was better to have partly satisfactory legislation than none at all. ‘The Bill’, he declared, ‘would compel Parliament to face problems which otherwise it would not.’

When the House of Lords came to consider the Bill, many speakers expressed their views on its alleged ‘dangers, injustices, and extravagance’. A few amendments were proposed, but there was no passion in the debate and so the controversial measure was duly passed.

For the fiery Chancellor of the Exchequer, Lloyd George, it was a triumph of the first order.

Beveridge

After the First World War, Britain's social insurance scheme, mainly on account of mass unemployment, was put to severe tests. The prophecy that it was a mere stop-gap measure proved to be true and, towards the end of the 1930s, a drastic overhaul was clearly indicated. When the Second World War had advanced to the point where victory was in sight, the question of a 'Welfare State' moved quickly on to the agenda.

Boldly following in the footsteps of Germany's 'Iron Chancellor' and the 'Welsh Wizard' came a British economist, social reformer, and Liberal politician, who had been active in the 1911 crusade. William Henry Beveridge, formerly a director of the newly-established Labour Exchanges and director of the London School of Economics, was in 1941 appointed chairman of the Committee on Social Insurance and Allied Services. In December of the following year the Beveridge Report – a comprehensive plan to ensure that there should be 'freedom from want' – was published.

Both the National Government, then in office, and the Labour Government, elected in 1945, accepted the recommendations of this now famous report, and early steps towards implementing it were taken. One of the first moves was the creation of a central administration – the Ministry of National Insurance – to take responsibility for running the new social insurance and assistance services. Next, in June 1945, the Family Allowances Act was passed under which an entirely new principle was recognized, i.e. that the State, as well as parents, had an interest in, and responsibility for, children. The financial grants under the Act were, at first, 5s a week in respect of each child after the first.

The really vital legislation, however, was not passed until 1946, when the National Insurance Act and the National Insurance (Industrial Injuries) Act, between them, laid the foundations of our modern system of comprehensive social insurance. Like the pre-war system, it was based on contributions from insured persons, employers, and the State, with additional help (National Assistance) for those whose needs were insufficiently met by the statutory benefits.

Universal Scope

As we have seen, social insurance in Great Britain was originally confined to persons with small incomes – the limit was for long £250, subsequently raised to £420, a year. This income

limit, under the National Insurance Act of 1946, was removed and the entire population, with very few exceptions, was brought into the scheme – including self-employed and non-employed persons.

The date on which the new legislation became operative was July 5th, 1948, and it replaced social insurance services which had been slowly built up over a period (reckoning from 1908, when old-age pensions were introduced) of forty years. The coverage of the 1946 Act was, of course, very much wider than that of the Acts which it superseded. All income receivers, irrespective of their occupation, were compulsorily included.

Another new principle related to the position of married women, who could either continue to pay contributions as normally insured persons or claim to be excepted. Married women who chose the latter course qualified for benefit as dependants of their husbands and not in their own right.

Range of Benefits

Fifteen years have now elapsed since the Beveridge proposals were given legal effect, a period sufficiently long to enable assessments to be made concerning their effectiveness in practice. Inevitably shortcomings have been revealed. Many critics believe the cost of national insurance to be too high. Nevertheless, there seems to be general agreement that the scheme has achieved a substantial measure of success.

The benefits cover a wide range and are constantly being reviewed and adjusted – usually in an upward direction. The old-age, or retirement, pension – raised earlier in the year, is an example of this tendency. So, too, is the introduction of graduated contributions and retirement pensions related to employees' earnings. No one is now in danger of suffering the privations which, half a century ago, were almost the common lot.

Today, if a man finds himself unemployed, he draws unemployment benefit and is helped by the Labour Exchange to find another job. Should he or his family fall sick, help from the doctor, hospital or sanatorium is forthcoming, as well as sick pay. All are entitled to medicines and life-saving drugs that, despite unpopular 'prescription charges', are virtually free. Facilities are there for the supply, when needed, of such things as dentures, hearing aids and spectacles.

A kindly State now pays both maternity and death benefits. In short, all the vicissitudes of life in a modern community are provided for – from the cradle to the grave.

The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

CANADA

Post-qualification Courses for Chartered Accountants

THE need for qualified chartered accountants to engage in a 'vigorous and imaginative' programme of continuing education, if they are not to forfeit their present standing in the accounting field, is discussed in a leading article in *The Canadian Chartered Accountant* for October. While chartered accountants have, in the past, spent much of their time in historical accounting and orthodox auditing, there is a need for a better understanding of modern management applications of accounting and of an audit not only of the records but of the business itself.

The Canadian Institute appointed a Director of Continuing Education as from May 1st, 1961, and a course on tax techniques and one on management accounting have since been prepared. These are part of a series of post-qualification courses, and may lead to advanced specialization in tax services and financial management. The former course is now in progress, available in both English and French.

Oil Industry Accounting

THE vagaries of accounting in the oil industry are also reviewed in the accounting research section of *The Canadian Chartered Accountant* for October. When the Canadian oil industry began to develop, about ten years ago, Canadian accountants found it easy to adopt United States' practice with all its diversity. There is a recognized need today for some accepted standard of accounting for the industry. The Canadian Institute has long been interested in this subject. It sponsored a publication on oil accounting by R. E. Waller, distinguishing between desirable and undesirable practices. It also appointed a study group in Calgary to develop a solution to the industry's particular problems.

It is impossible to predict with accuracy the relationship between cost of discovering and developing oil or gas reserves and the actual value of the reserves. The presence of oil or gas in commercial quantities can be determined only by drilling, and the relative costs must vary tremendously. The very long life of oil and gas fields intensifies the effects of inflation but, apart from this, some modification of the accepted 'cost' principle is seen to be necessary if these companies are to reflect any reasonable approximation of actual value. Some recognition may have to be given to 'discovery' value, the argu-

ment being that recognition of reserve values at the time of discovery would give a more useful figure of periodic income than deferral until sale, since the real risk is in the search not the sale. But would the loss of comparability and conservatism be justified?

UNITED STATES

Challenges to the Accounting Profession

A STIMULATING article by Mr Robert M. Trueblood, C.P.A., Visiting Ford Research Professor at the Graduate School of Industrial Administration, Carnegie Institute of Technology, in a recent issue of *The Journal of Accountancy*, gives expression to ideas developed in sessions of the American Institute's long-range planning committee.

The problems considered are concerned with current developments in the management service activities of certified public accountants. Within his business enterprise the controller is seen as faced with two alternatives: either to expand his responsibilities to comprehend all information systems or to take a subsidiary position as a sort of manager of financial data and statements. In the latter case he would receive information from a 'director of information systems'. In the same way the C.P.A., whose audit opinion is dependent on an understanding of the information and control systems which produce financial statements, must expand and broaden his knowledge of these systems, and so broaden the scope of his management service practice. Advancing technology is forcing the C.P.A. to broaden his perspective. Without accepting expert responsibility where other disciplines such as mathematics are involved, he must learn what the new techniques can accomplish, seek expert consultation on their use, and evaluate their validity.

Mr Trueblood challenges the accounting profession and educational institutions to recognize a greater responsibility for educating students for future practice, not merely practice at the time they enter the profession. He urges the practising C.P.A. to assume personal responsibility for self-development by taking courses offered by educational institutions and joining in the continuing education programmes of the profession.

In the September issue of the journal, Dr G. Leland Bach, Dean of the Graduate School of Industrial Administration and Head of the Department of Economics, Carnegie Institute of Tech-

nology, issued a similar challenge from outside the profession, under the heading 'Accounting Education for the 1980s'.

He first states the fundamental proposition that independent problem-solving ability is the critical element in the skills of a professional man. The world of business is in a revolution and one element of this revolution is increased emphasis on developing managerial problem-solving abilities in contrast to specialized technical skills. The traditional, analytical tools of economics are still being used, but with a new emphasis on the use of managerial economics. In the area of quantitative methods the progressive graduate schools are beginning to look beyond the traditional approaches of accounting and statistics to the problem of effectively collecting and using quantitative data for all business situations. Also a new kind of mathematics is being used, devised specifically to help in solving problems faced by business management.

Turning to the implications for accountants and accounting education, Dean Bach deals with the three groups of accounting students: those headed for management careers, for accounting careers in business organizations, and for careers in public accounting firms, respectively. For the management-oriented student he deprecates the traditional C.P.A. emphasis by C.P.A.-oriented teachers. He says that, throughout the world of business education, some are suggesting that accountants are standing in the way of progress by insisting that schools ought to have the kind of accounting that has been traditional for C.P.A.s, even for students aiming at becoming managerial problem solvers.

Dean Bach suggests that the whole nature of the accounting profession may be in for a major change, may indeed be now in the first stages of such a change, from its traditional auditing function towards closer involvement with managerial problem-solving and control functions. If so, he sees the new type of managerial training as having strong relevance also for C.P.A.s. He thinks the good C.P.A. of tomorrow will need to be well rounded in the full set of analytical tools first mentioned, well rounded in a managerial way of looking at business problems, and well rounded in understanding the world in which the modern business firm operates.

Role of the Modern Accountant

PROFESSOR CHARLES H. GRIFFIN, of the University of Illinois, believes the responsibility for growth in the accounting profession rests with those imaginative accountants who can and will accept an enlarged service role. In an article in the *N.A.A. Bulletin* for October, he states that business leaders are increasingly relying on the informed judgments of accountants in the important decision-making processes. The accountant must abandon after-the-fact analysis for prophecy and projection. He must explore other disciplines which have the promise of rewarding interpretative application -

those of statistics, logic and mathematics. Thus Professor Griffin suggests time series analysis, to expose the effects of seasonality on operations, and index number application, to deflate current dollar measurements. He thinks logic may reveal the existence of invalid conclusions. Particularly significant, he says, is the extension of mathematics into theory development in the form of models, often expressed in terms of systems of simultaneous equations. These auxiliary sources - statistics, logic, mathematics - are but a few of those tapped by the inquiring accountant in his search for more useful tools in managerial counselling.

Concluding with a vivid metaphor, Professor Griffin warns that use of an inelastic unit model for accounting theory, into which the explanation of an elastic professional practice must be compressed, will inevitably provoke either a misshapen casting of accounting practice or a distension of the theoretical mould. The counselling role of the accountant must not be devitalized with the shackles of a narrowly conceived theoretical model.

FRANCE

Thoughts on Depreciation

ACCORDING to the French *Plan Comptable Général*, depreciation (*amortissement*) is the accounting entry which records loss in value of fixed assets due to their use or the passage of time. Fixed assets include buildings, plant and machinery, vehicles, furniture, patents and preliminary expenses. Land and goodwill are not subjects of depreciation. A 'provision' is an accounting entry which records a diminution in value of those assets which do not suffer losses through time and use, such as goodwill in the relevant case, goods in stock, stocks and shares and accounts receivable. These are called provisions for depreciation, and a further category, accruing legal liabilities or substantial repairs which have not yet crystallized in the form of an obligation, is called provisions for losses and expenses.

A 'reserve' is an amount transferred from profits in order to provide for non-contingent eventualities, such as a possible future loss. The term 'reserve' is also applied to share premiums, receipts from the State in the form of subventions, and the revaluation excesses which arise through taking advantage of the law permitting business to revalue their assets in accordance with an official index and charge depreciation on a correspondingly higher figure.

The accounting entries which are necessary to record these various items are the subject of a number of legal rules besides those which make the *Plan Comptable Général* applicable in particular cases. An article by M. L. Waechter in the *Bulletin of the Société de Comptabilité de France* for September examines these rules from the accounting, legal and taxation aspects and provides considerable insight into the book-keeping procedures required.

Weekly Notes

Institute Council Resignation

THE resignation of Mr Kenneth George Shuttleworth, F.C.A., from the Council of The Institute of Chartered Accountants in England and Wales was received with regret by the Council at its meeting on December 6th (reported elsewhere in this issue).

Since his election to the Council in 1948, Mr Shuttleworth has served on a number of its committees. Throughout his Council service he was a member of the District Societies Committee; he also served on the Applications Committee from December 1948 to June 1950 and again from June 1953; the Library Committee from June 1953 and the Finance Committee from December 1948 to June 1956. Mr Shuttleworth, who is a partner in the firm of T. G. Shuttleworth & Son, Chartered Accountants, of Sheffield, was admitted an Associate of the Institute in 1919 and was elected to fellowship in 1925.

Rights of Innocent Party on Breach of Contract

THE House of Lords has held by a majority of three to two that when one party to a contract repudiates it, the innocent party normally has an option. He can either treat the contract as at an end and sue for damages generally. Or he can simply wait until the date when payment by the repudiating party falls due and sue for that payment on the footing that the contract is still in being (*White & Carter (Councils) Ltd v. McGregor* (*The Times*, December 7th)). The appellants were advertising contractors who undertook to place advertisements of the respondent's business on local authority litter bins during a period of three years. The respondent repudiated the contract almost immediately, his manager having made it without authority. However, the appellants insisted on carrying out their part of the contract and sued for the sums contracted to be paid. The House of Lords held that the appellants were entitled to these sums.

Appeals from the Court of Appeal

WHEN the Inland Revenue lost their estate duty appeal in *Rennell v. C.I.R.*, counsel on their behalf asked for leave to appeal to the House of Lords. (See *The Accountant* of November 11th at page 618). The Court of Appeal granted leave, subject to the Inland Revenue undertaking not to re-open questions of fact. As reported last week, the Attorney-General, in seeking release from this undertaking, argued *inter alia*, that the Court of Appeal had no power to exact

concessions as a condition of granting leave to appeal from their own decisions. There was a further development on December 6th when (according to *The Times* of December 7th) the Master of the Rolls announced that he had received an intimation from the Lord Chancellor that it was perfectly proper for the Court of Appeal to attach conditions to the grant of leave to appeal, and that the imposition of conditions did not constitute a usurpation of the functions of the Appeals Committee of the House of Lords. However, a party to whom the Court granted leave, subject to conditions was entitled to treat the imposition of conditions as a refusal of leave to appeal and could therefore apply for leave to the Appeals Committee.

No Contractual Rights to Non-parties

IT is a well-settled principle of English law that a person who is not a party to a contract cannot enforce provisions in it for his own benefit, even though the contracting parties intended that he should benefit. An attack on this principle failed in the House of Lords in *Scruttons Ltd v. Midland Silicones Ltd* (*The Times*, December 7th). A bill of lading limited the liability of the carrier for negligence. Stevedores who were not parties to the bill of lading negligently damaged the goods when unloading them from the ship. When sued by the owners, the stevedores attempted, *inter alia*, to rely on the limitation of liability expressed in the bill of lading. The House of Lords (Lord Denning dissenting) rejected this defence.

Office Staff Survey

THE third national survey of office staff practices – the others having appeared in 1946 and 1952 – was published this week by The Institute of Office Management.¹ It covers some 750 establishments in the United Kingdom and nearly 200,000 employees, about 8 per cent of the total.

Of the fourteen geographical areas from which the information was derived, the City of London is by far the most individual. With suburban London and North-west England it shares the distinction of being least insistent on shorthand-typists having a G.C.E. qualification. It has the fewest commercial apprentice schemes (Northern England having the most) and is the most reticent in publishing salary scales. Moreover, it frowns most upon maintaining time-keeping records. It leads the way in permitting the use of office telephones for personal calls during business hours and has the lowest proportion of installed telephone booths. Finally, it has the highest staff turnover among women and (with the Midlands) among men.

Other interesting general facts to emerge are that –

¹ *Office Staff Practices 1961*. (The Institute of Office Management, 56 Victoria Street, London. 50s net.)

69 per cent of the establishments in the survey pay for overtime at a special hourly rate and that about half pay an annual cash bonus based usually on the year's financial result. The working week in nearly two-thirds of the sample ranges from thirty-seven to thirty-nine hours and the same proportion enjoys a five-day week. Only 6 per cent work every Saturday. The most popular starting and stopping times each day are 9 a.m. and 5.30 p.m. and less than one-fifth of the establishments have received official requests to stagger their office hours – a measure generally unpopular both with employers and employees. Two weeks' holidays seems to be the reported minimum and, in 75 per cent of offices, also the maximum. In the 1946 and 1952 surveys, less than 10 per cent gave more than two weeks as the holiday entitlement. The tendency to grant more than two weeks appears to be most prominent in North and North-west England. Seven out of every ten establishments provide meal facilities on their premises and in metropolitan London nearly half the staffs are supplied with lunch vouchers.

The compilers point out that the practices reported are probably representative of more progressive firms and that the survey is not an attempt to set up standards for employment but rather to act as a guide for those concerned with day-to-day office administration and in this object it succeeds perfectly.

Friendly Societies Report

PART 2 of the report for 1960 of the Chief Registrar of Friendly Societies was published on Monday.¹ It deals with the work of the Chief Registrar's department under the Friendly Societies Acts and the operations of registered societies during 1960. Friendly societies which are known as 'collecting societies', i.e. those which make door-to-door collections of members' life assurance premiums, are dealt with in the Chief Registrar's report in his capacity as Industrial Insurance Commissioner.

Friendly societies proper are associations of members subscribing on a mutual basis for sickness, death, old age and other provident benefits. However, cattle insurance societies, benevolent societies, working men's clubs, old people's homes societies, and societies for various purposes authorized by the Treasury are also registrable under the Friendly Societies Acts. Working men's clubs are dealt with in Part 3 of the Chief Registrar's report.

In view of the diversity indicated above, statistics about changes in the totality of membership or of funds are perhaps not very helpful. Societies whose main purpose is the provision of endowments have increased their membership consistently over a number of years. The same applies to sickness benefit societies which accumulate their funds without division or withdrawal. Subject to these,

there is a slight tendency to decline in membership. The number of registered societies fell from 11,210 to 10,814 during the year. It is perhaps a sign of the times that one casualty is the Halifax United Order of the Peaceful Dove Friendly Society. Another casualty was the Friendly and Benevolent Society of Great and Little Chesterford, which was first registered in 1816. The original rules of this society (in manuscript) included provision for an annual feast day

'on which day all the members shall meet together between ten and twelve o'clock in the forenoon in order to go in procession to the Parish Church and to hear divine service after which the business of the Society is to be transacted agreeably to the rules laid down in these instructions and when concluded the members shall sit down to dinner at three o'clock. Each member shall pay two shillings towards the expenses of the dinner at which order and decorum are to be observed and when the President quits the Chair all the members shall retire to their respective homes'.

Stock Exchange and Capital Gains Tax

LAST week Lord Ritchie headed a deputation from the London Stock Exchange to the Chancellor of the Exchequer to make official representations against the taxation of short-term capital gains.

His plea was concerned with the effect of a tax on short-term gains on the efficiency of the market. It was not concerned with the general case for taxing capital gains. He had in mind the possibility that the tax might reduce turnover and impair efficiency both in gaining new capital and in general dealings.

The Stock Exchange is naturally sensitive at present about the attractions it can offer to foreign business as this country hovers at the brink of the European Common Market. It is aware that, along with New York, it offers the most efficient market dealing with shares anywhere in the world, including the marketability of new issues and a generally experienced and flexible machine for raising capital. On the other hand, the excellent services it offers are already under the disadvantage that London at present is a dear money centre and seems likely to remain so for some time. There is already one disadvantage to surmount and the market is not anxious to be saddled with another.

Last O.E.E.C. Report

THE *Twelfth Annual Economic Review* of the Organization for European Economic Co-operation has now been published. Much of it is given over to an account of how O.E.E.C. has handed over to the Organization for Economic Co-operation and Development (O.E.C.D.). In addition to covering its own immediate activities the report deals with the work of the European Nuclear Energy Agency and the European Productivity Agency.

¹ H.M.S.O. 3s net.

This last ceased to exist as at September 30th but certain of its activities have been taken over by O.E.C.D. though precisely how much of the Agency's work will survive the translation of O.E.E.C. into O.E.C.D. is not at all clear.

Other sections of the report deal with economic conditions in member countries and stress the need for better co-ordination of economic policy among

them. There are fifty-two tables and a number of graphs indicating comparative growth in member countries over a varying series of years.

The review as a whole will be of interest to those who wish to follow the process of transition from O.E.E.C. to O.E.C.D. Apart from the sections dealing with this change-over, the booklet is mainly of historical interest.

This is My Life . . .

by An Industrious Accountant

CHAPTER 102

IT'S always tempting to an accountant to get involved in someone else's business; one of the most difficult exercises in self-control is to avoid rigorously any comment on your colleague's problem.

For years past, our company has been accustomed at Christmas time to making a rather half-hearted token gesture in the direction of public relations; we lay in a small stock of desk diaries which are distributed to a few of our favourite customers. It's an education to see our sales manager, with a smile like the Cheshire Cat splitting his face, pressing his gift on an overwhelmed recipient. These diaries are rather good. They have a highly polished metal base, the calendar block containing a page for every day turning over readily, with a neatly-indexed section of voluminous data about world affairs – highly impressive but really utterly useless. The article is completed with a propelling pencil with four colours resting on a ledge. Each page carries a motto of unimpeachable virtue.

Oh, those mottoes! Heaven only knows who chose them first; what doddering old pedagogue culled them from ancient Victorian tomes; what high-principled moralist first raided Sandford and Morton or Eric (Little by Little) for their gems of profundity. Here we have 'A dram of loyalty outweighs a pound of cleverness', followed by 'Imitate the bulldog – hang on and win' and 'To believe in luck is to pursue a will-o'-the-wisp'. In a moment of irritation, I inveigled against them to the chairman, profoundly upsetting his after-lunch mood of at-peace-with-the-world. But when he'd read a few of the choicer selections – probably for the first time in years – he, too, felt that they were a bit much. Obviously a change was overdue. We must, he declared, signalize our Christmas of 1961 properly. Free samples? No. Calendars? No. Lucky dips or raffles? No . . . with one accord we plumped for Christmas cards. Four days later there were four massive books of specimens on my desk

and my eyes were opened to the vagaries of human whims.

The chairman's views were straightforward. He wanted to circularize as many of our customers as possible with an impressive card bearing hearty good wishes – yes, and possibly a friendly reminder of our ready services; in the circumstances, a gilt border and tassels might look well, don't you think? An action picture was his selection; and after dallying with a huge coach-and-four galloping down snowy lanes he picked a 'Charge of the Scots Greys' which was certainly stirring but hardly redolent of Christmas. I was tactfully steering him away from the misplaced reference to business when Scotty, our sales manager, came to his assistance. His choice was even worse. He wanted a scene from Dickens, showing a young couple laden with parcels emerging from ye olde shoppe, he with frogged coat and curly-brimmed topper, she in poke-bonnet and pattens. Suggestive, he called it; just the right note – appealing to the little woman, ye ken.

My taste ran to the traditional – perhaps a 'Holy Night' by Maratta, or a beautifully-coloured Bethlehem scene by Matania; even a stylized old Italian impression of the Magi arriving on camels. Had they only been on horseback, the chairman might have yielded. Just then, unfortunately, Prinny joined us. He cheerfully demanded an appalling series of ultra-modern cartoons of admittedly powerful impact; his special preference began 'I'm belly happy to see you . . .' (the illustration is perhaps better left to the baser imagination.) The chairman was castigating him violently when the sales manager suddenly veered round and demanded calendars; after all, their effect would last throughout the whole year whereas Christmas cards were essentially short-term.

We were still going around in circles an hour later, and my notebook was full of decisions, amendments, and deletions, when my secretary came in to announce calmly that the 1962 desk diaries had been delivered. Apparently they're a standing order. . . .

I think that everyone felt secretly relieved that the problem of selection was automatically deferred till next year, but I was the embarrassed party when they asked if I had checked the terms of the old order before suggesting a change. Moral for accountants with a zeal for improvements: leave subjective issues to be decided by the directors.

Finance and Commerce

Costing the Strike

THIS week's reprint presents the accounts of The Phoenix Timber Co Ltd, one of the big timber merchants and importers. The report contains a two-page aerial view of the Phoenix wharves at Rainham, Essex, where the timber cargoes are brought in. Profits, it will be noted, are decidedly up. Mr Alexander B. Gourvitch, the chairman and managing director, says in his annual statement that they would have been some £100,000 higher still but for the unofficial tally clerks' strike at the London Docks during September and October 1960.

Mr Gourvitch admits he put the cost of the strike to the company at £50,000 at a Ministry of Labour inquiry into the National Dock Labour Scheme last April. But he explains that he had to be conservative in his reckoning then. He had, he says, to be able to substantiate the amount beyond any shadow of doubt if called on to do so, and he eliminated from his estimate anything which was not a direct consequence of the strike or could not be clearly evaluated. He

feels, therefore, that in view of the magnitude of the figure he now gives, some explanation is called for.

Responsible Employer

He accordingly goes on to point out that in the eight months of June to January the company normally arranges for shipments to Rainham to arrive at the rate of two to four ships a week, and from September onwards the months bring 'enhanced activity'. As port employers since 1947, he says, the company has maintained a fairly constant labour force of weekly dockers on its staff. They know Phoenix methods and are reputed to be among the most efficient deal porters in the country, and with their dockers they had never had any quarrels which could not be amicably resolved.

But the tally clerks, by the nature of their work, are not retained by the company, but employed by the ships. Without tally clerks, ships cannot be worked in accordance with the custom of the Port.

It was evident, says Mr Gourvitch, that there would be a tremendous accumulation of work when the strike ended and an acute shortage of dock labour in the Port of London. And Phoenix, moreover, wanted to be 'truly responsible employers' and were reluctant to victimize men not a party to the strike by putting them off. So it was considered prudent to maintain the labour force, including crane drivers, tractor drivers, supervisors, etc., at full strength. Accordingly, to departmental profit and loss accounts, some £25,000 was thus spent unproductively during the strike period.

THE PHOENIX TIMBER COMPANY LIMITED AND ITS SUBSIDIARIES STATEMENT OF FIXED ASSETS AT 31st MARCH, 1961

BALANCES 31st MARCH, 1960 The Phoenix Timber Co., Ltd. £		COST		AMOUNTS WRITTEN OFF		BALANCES 31st MARCH 1961	
Co., Ltd.	Group £	The Phoenix Timber Co., Ltd. £	Group £	The Phoenix Timber Co., Ltd. £	Group £	The Phoenix Timber Co., Ltd. £	Group £
404,328	404,328	556,435	562,562	56,663	56,790	499,772	505,772
35,604	35,604	110,757	112,606	11,414	12,557	99,343	100,049
7,426	7,426	38,576	38,576	32,487	32,487	6,089	6,089
183,591	208,901	380,630	468,588	164,460	187,482	216,170	281,106
55,719	60,682	129,276	147,098	55,706	63,219	73,570	83,879
5,237	5,957	12,857	14,899	6,594	7,292	6,263	7,607
691,905	722,898	1,228,531	1,344,329	327,324	359,827	901,207	984,502
13,801	14,820	23,727	25,849	8,938	8,938	14,789	16,911
705,706	737,718	£1,252,258	£1,370,178	£336,262	£368,765	915,996	1,001,413
9,800	9,800					6,440	6,440
21,975	24,507					33,443	46,196
31,329	35,947					44,342	47,850
63,104	70,254					84,225	100,486
642,602	667,464					831,771	900,927
12,971	12,971					13,121	13,121
499	499					499	499
—	751					500	4,701
£656,072	£681,685					£845,891	£919,248

Freehold Land and Buildings
Leasehold Land and Buildings
Mulberry Pier and Installations
Plant, Machinery and Wharf Equipment
Motor Vehicles
Office Machines

Office and Canteen Furniture and
Equipment
(Replacements charged to Revenue)

Deduct Mortgage advance on Freehold Land and Buildings
Installments Outstanding under Hire Purchase Agreements:
Plant and Machinery
Motor Vehicles

Spare Parts and Dunnage, as valued
Trade Investments, at cost
Patents, Licences and Designs at cost, less amounts written off

TOTAL FIXED ASSETS, PER BALANCE SHEET

NOTES ON THE ACCOUNTS

	£		£	1961
Group Trading Profit, before dealing with items below (see note 1)	374,605			408,783
Add Surplus on Realisation of Sundry Fixed Assets	<u>2,332</u>			<u>1,688</u>
	376,937			410,471
Deduct Depreciation	<u>61,189</u>		<u>65,871</u>	
Amounts written off Expenditure on Leasehold Sites and Patent Licences	<u>1,955</u>		<u>2,223</u>	
Debiture Interest (gross)	<u>13,125</u>		<u>13,750</u>	
Other Interest and Financial Charges	<u>76,840</u>		<u>125,545</u>	
	153,109			207,389
Net Profit for the Year, before Taxation	173,828			203,082
Deduct Taxation on Profit for the Year	<u>52,097</u>		<u>67,301</u>	
Income Tax	<u>13,322</u>		<u>23,003</u>	
Profits Tax	<u>—</u>		<u>(213)</u>	
	67,419		2,500	
Net Profit for the Year after Taxation	106,409			112,778
Add Adjustments relating to Previous Year Taxation	<u>• •</u>		<u>—</u>	
Insurance Claim Receivable	<u>600</u>		<u>—</u>	
	107,009			115,065
Add Balance brought forward at 1st April, 1960	<u>22,050</u>			<u>84,709</u>
	129,059			199,774
Deduct Payment for Goodwill written off	<u>—</u>			<u>2,500</u>
	129,059			197,274
Deduct Profits retained in Subsidiary Companies	<u>129,059</u>			<u>563</u>
	128,190			196,711
Deduct Transfers to Debenture Redemption Reserve	<u>12,500</u>		<u>12,500</u>	
Stock Reserve	<u>—</u>		<u>50,000</u>	
	115,690			134,211
Balance Available for Distribution by Parent Company				
Dividends on the Share Capital of the Parent Company	<u>31,850</u>		<u>2,756</u>	
Paid: 6% Cumulative Preference Dividend, less income tax	<u>83,840</u>		<u>29,094</u>	
Proposed: Ordinary Dividend of 10%, less income tax	<u>869</u>		<u>—</u>	
	115,690			31,850
Balance Carried Forward by Parent Company				
Balance Carried Forward by Subsidiary Companies	<u>83,840</u>		<u>102,361</u>	
Total Unappropriated Profit per Consolidated Balance Sheet	<u>869</u>		<u>563</u>	
	£84,709			£102,924

The Notes [opposite] are to be read with these Accounts.

Profit and Loss Account

Profit and Loss Account

	£	1961
	<hr/>	
Emoluments of Directors of Parent Company In respect of services as Directors	900	
Other Emoluments	42,758	
	<hr/>	
Company's contributions to Superannuation and Life Assurance Schemes	43,658	
Pension to former Director of Parent Company Auditors' Remuneration	5,638	
	<hr/>	
		49,296
		1,000
		2,512
		<u>£52,808</u>
		<hr/>
		65,301
		31,002
		<u>96,303</u>
		306,382
		<u>402,685</u>
		64,932
		<u>£337,753</u>
		<hr/>

1960	£	
	<hr/>	
1,050		
45,741		
<u>46,791</u>		
5,041		
		51,832
		1,000
		1,995
		<u>£54,827</u>
		<hr/>
		15,004
		31,002
		<u>46,006</u>
		186,094
		<u>232,100</u>
		43,091
		<u>£189,009</u>

Balance Sheet	
2.	Investments in Subsidiary Companies:-
	Shares, at Cost
	Shares, as valued by the Directors
	Amount due from Subsidiaries
	Deduct Amount due to Subsidiaries

Balance Sheet

2. Investments in Subsidiary Companies:—

Shares, at Cost	65,301
Shares, as valued by the Directors	31,002
	<u>96,303</u>
Amount due from Subsidiaries	306,382
	<u>402,685</u>
Deduct Amount due to Subsidiaries	64,932
	<u>337,753</u>

3. Capital Reserves

Subsidiary Companies: excess of book value of net assets over cost of acquisition

4,366	Parent Company	4,316
25	Subsidiary Companies: excess of book value of net assets over cost of acquisition	16,357
<u>£4,391</u>		<u>£20,673</u>

4. Contingent liabilities of the Parent Company at 31st March, 1961, were as follows:—

ilities of the Parent Company

(a) Bills receivable discounted amounting to £313,565 (1960: £227,598) which have since matured without liability.

(b) Guarantees in respect of outstanding instalments of £13,374 under hire purchase agreements entered into by a subsidiary company.

5. Commitments for capital expenditure at 31st March, 1961, not provided for in these accounts, amounted to approximately: Parent Company £16,000; Group £22,600.

6. There is a floating charge on the Assets and Undertaking of the Parent Company to secure bank advances of £1,537,760 (1960: £800,000) to the Parent Company at 31st March, 1961.

THE PHOENIX TIMBER COMPANY, LIMITED AND ITS SUBSIDIARIES

BALANCE SHEET (THE PHOENIX TIMBER COMPANY, LIMITED) AND CONSOLIDATED BALANCE SHEET (GROUP) AT 31ST MARCH, 1961

1960		1961	
The Phoenix Timber Co., Ltd.	Group	The Phoenix Timber Co., Ltd.	Group
£	£	£	£
SHARE CAPITAL AND RESERVES			
Share Capital of The Phoenix Timber Company, Limited			
75,000 6% Cumulative Preference Shares of £1 each, fully paid	75,000	75,000	75,000
1,900,000 Ordinary Shares of 5s each, fully paid	475,000	475,000	475,000
125,000 Unclassified Shares of £1 each	125,000	—	—
	£550,000	£550,000	550,000
Capital Reserves (see note 3)			
	4,366	4,316	20,673
Revenue Reserves			
General Reserve	100,000	100,000	100,000
Unappropriated Profits	83,840	102,361	102,924
	183,840	202,361	202,924
Debenture Redemption Reserve	75,000	87,500	87,500
Stock Reserve	—	50,000	50,000
Reserve for future Income Tax	54,000	60,000	65,712
	312,840	399,861	406,136
	867,206	954,177	976,809
LOAN CAPITAL			
5½% First Mortgage Debenture Stock 1970/79	250,000	250,000	250,000
	£1,117,206	£1,204,177	£1,226,809
FIXED ASSETS			
Per Statement Annexed	656,072	681,685	845,891
INVESTMENTS IN SUBSIDIARY COMPANIES (see note 2)			
	189,009	—	337,753
NET CURRENT ASSETS			
Current Assets			
Stock in Trade	1,229,271	1,340,705	1,493,292
Stock of Sundry Materials	15,174	16,887	15,162
Debtors and Payments in Advance	1,000,054	1,057,207	1,018,320
Bills Receivable	12,961	13,961	37,844
Cash at Bankers and in Hand	37,340	43,562	4,308
	2,294,800	2,471,322	2,568,926
	800,000	800,000	1,153,760
	820,474	820,474	745,775
	359,028	368,681	591,477
	14,079	15,384	28,287
	29,094	29,094	29,094
	2,022,675	2,033,633	2,548,393
	272,125	437,689	20,533
	£1,117,206	£1,119,374	£1,204,177
FIXED ASSETS			
Per Statement Annexed	656,072	681,685	845,891
INVESTMENTS IN SUBSIDIARY COMPANIES (see note 2)			
	189,009	—	337,753
NET CURRENT ASSETS			
Current Assets			
Stock in Trade	1,229,271	1,340,705	1,493,292
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	359,028	368,681	591,477
	14,079	15,384	28,287
	29,094	29,094	29,094
	2,022,675	2,033,633	2,548,393
	272,125	437,689	20,533
	£1,117,206	£1,119,374	£1,204,177
FIXED ASSETS			
Per Statement Annexed	656,072	681,685	845,891
INVESTMENTS IN SUBSIDIARY COMPANIES (see note 2)			
	189,009	—	337,753
NET CURRENT ASSETS			
Current Assets			
Stock in Trade	1,229,271	1,340,705	1,493,292
Stock of Sundry Materials	15,174	16,887	15,162
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	800,000	800,000	1,153,760
	820,474	820,474	745,775
	359,028	368,681	591,477
	14,079	15,384	28,287
	29,094	29,094	29,094
	2,022,675	2,033,633	2,548,393
	272,125	437,689	20,533
	£1,117,206	£1,119,374	£1,204,177
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The Notes on page [798] are to be read with these Accounts.

ALEXANDER GOURVITCH } Directors
A. F. DAVENPORT

Direct and Indirect

When the strike finished, there was the job of discharging in three and a half months – mid-October to end-January – what was planned as five months' work. Overtime and Sunday work which would not otherwise have been incurred amounted to another £5,000.

Some charter parties were cancelled by the ship-owners and ships had to be re-chartered at increased rates. Some cargoes were diverted by shipowners to continental ports and though a proportion was recovered under a specific insurance policy, additional expense to bring the goods back – including some deterioration to the goods during that period – was not below £20,000–£30,000. Direct losses thus totalled £50,000–£60,000.

Indirect losses, though more serious, says Mr Gourvitch, are difficult to evaluate with precision. Some buyers went to other ports which were not affected; to some extent, they managed to do without. Delayed shipments eventually resulted in excessively heavy stock when the new season was about to start in May or June.

Financial pressure building up throughout the trade leads to unprofitable selling. Heavier stocks cost more to finance. And there was the effect of the reduction in overseas price levels which set in when the buying was interrupted. Thus Mr Gourvitch estimates the £100,000 figure.

Increased Turnover

The board, he says, came to the conclusion early in 1960 that the year under review held promise of 'unusual profitability'. With the full support of their bankers, the directors embarked on an increased trading programme as a short-term measure in the hope of improving the liquid capital position.

The effort with which the campaign was pursued, he says, can best be assessed by the turnover achieved. He gives the approximate group sales turnover for five years starting with £5,126,000 in 1956–57, then £5,025,000, £5,195,000, £6,644,000 and then £8,348,000 for 1960–61.

'An increase in turnover of 27½ per cent resulted in a net profit increase of 16 per cent only.'

CITY NOTES

GOVERNMENT monetary and economic policy continues to come under fire from the banks. Chairmen of the National Provincial Bank and Barclays Bank D.C.O. have lately criticized the failure of successive Chancellors of the Exchequer to learn through the mistakes of their predecessors and to make full use of available monetary machinery. But above all there is criticism on the basic grounds that the Government's economic suit has been persistently cut on borrowed cloth.

Mr Julian Crossley, chairman of Barclays D.C.O., has emphasized the impact overseas of high interest rates in London and has suggested that London is in danger of pricing itself out of its position as the world's leading financing centre. Newly independent Governments overseas, Mr Crossley maintains, are in danger of being forced – because of London's high interest rates – to borrow money elsewhere with political strings attached to the finance.

Meanwhile the Government's concern with 'the pause' seems to rule out any early reduction in Bank rate beyond the current 6 per cent level. While Bank rate stays at that level there may continue to be some doubtfully based improvement in currency reserves. That seems poor recompense against the difficulties imposed by high credit costs on industry which is exhorted to break out into new export markets.

At the recent European Exports Convention a common complaint was the inadequacy and high cost of credit facilities. On the other hand, there were clear indications that industry is not making the best use of credit services available in the City, possibly because of the City's slowness in making its services known.

RATES AND PRICES

Closing prices, Wednesday, December 13th, 1961

Tax Reserve Certificates: interest rate (25.11.61) 3½%

Bank Rate

Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6½%
Oct. 27, 1960	5½%	Nov. 2, 1961	6%

Treasury Bills

Oct. 6	£6 2s 5.80d%	Nov. 10	£5 8s 5.49d%
Oct. 13	£6 0s 0.28d%	Nov. 17	£5 7s 9.71d%
Oct. 20	£5 18s 5.35d%	Nov. 24	£5 7s 9.40d%
Oct. 27	£5 14s 6.57d%	Dec. 1	£5 7s 1.08d%
Nov. 3	£5 8s 6.10d%	Dec. 8	£5 6s 5.34d%

Money Rates

Day to day	4½–5½%	Bank Bills	
7 days	4½–5½%	2 months	5½–5½%
Fine Trade Bills		3 months	5½–5½%
3 months	6½–7½%	4 months	5½–5½%
4 months	6½–7½%	6 months	5½–5½%
6 months	7–8%		

Foreign Exchanges

New York	2.80½–81	Frankfurt	11.23½–8
Montreal	2.93½	Milan	1743½–44
Amsterdam	10.10½–11½	Oslo	20.01½–2
Brussels	139.83½–4	Paris	13.76½–3
Copenhagen	19.31½–8	Zürich	12.12½–2

Gilt-edged

Consols 4%	59½	Funding 3% 59–69	82½
Consols 2½%	38½	Savings 3% 60–70	79½
Conv'n 5½% 1974	92	Savings 3% 65–75	71½
Conversion 5% 1971	90½xd	Savings 2½% 64–67	85
Conversion 3½% 1969	85½	Treasury 5½% 2008–12	84½
Conversion 3½%	52	Treasury 5% 86–89	82½
Exchequer 5½% 1966	98½	Treasury 3½% 77–80	69½
Funding 5½% 82–84	90½xd	Treasury 3½% 79–81	69½
Funding 4% 60–90	88½	Treasury 2½%	37½
Funding 3½% 99–04	56½xd	Victory 4%	93½
Funding 3% 66–68	84½	War Loan 3½%	52

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

University Graduates and the Profession

SIR, — The correspondence in your issue of December 9th disposes so completely of the misstatement in the editorial of November 24th concerning honours degrees as to make any further comment thereon superfluous.

Mr Whittington-Smith is wrong in thinking that the Universities Scheme is dead. While its disappointingly slow progress in the past ten years may be due in part to the inexplicable apathy of those professional bodies who were primarily concerned with launching it, the fact remains that in those years the subject of accountancy in the modern universities has secured a hold not only in faculties of commerce and social science, but also in the field of 'service teaching' (to which Mr Whittington-Smith refers) for undergraduates in a number of engineering courses, e.g. production engineering and mechanical engineering.

It is passing strange that the senior body in the accounting profession should have apparently no part to play in the recognition of accounting by scientists, engineers, and again by the Law Society which, as from 1963, will assign a wider field to the subject of trust accounts.

Perhaps the opportunity can be taken to add a little about this very topical question of the graduate intake. It came most prominent into the public gaze with the introduction in 1946 of the Universities Scheme. It is not necessary here to consider detailed courses of study, or the oft debated exemption from the professional Intermediate examination. Suffice it to say that the broad basis adopted embraced the subjects of accounting, economics and law. To some, who might otherwise welcome a graduate intake, this combination of subjects was anathema. That an undergraduate contemplating an accounting career should of all people — and in this day and age — seriously embark on a course of study so closely linked with his future activity appeared to some a very questionable thing.

On page 401 of the July issue of *The Law Society's Gazette* is written:

'The Council would certainly not wish to take any step which would discourage a person who has taken a degree in a Faculty other than law from entering the profession. It is, however, an inescapable fact that on graduating a person who has read law at the University knows more law than a person who has read another subject.'

In an earlier recommendation of the Council of the

English Institute, they (the Council) drew attention to the desirability of 'experimenting with methods of measuring the effects of changes in the purchasing power of money on profits and on financial requirements'. A P. D. Leake Research Fellow (Mr Lionel Wilk) has published a valuable contribution on these very lines, and he himself would be the first to acknowledge that even a modest appreciation of economic principle and reasoning immensely assists the understanding of his plans. And in a wider sphere does not any future member of our profession benefit from an ability to follow the current talk on what is meant by matching productivity with personal incomes?

The Universities Scheme so recently launched by the Scottish Institute is known to many of us. It requires, of course, as regards the five-year man that he shall be an undergraduate for one year — normally the middle or third year of articles. This is a long way from graduate intake as such, but it marks most definitely an advance beyond anything which appears to be thus far even contemplated in England and Wales.

And so we come to the point. Where does the Institute of England and Wales stand in all this? Probably the final pronouncement of Council will not be long delayed. So far as one can tell the impact of the Parker Report is not nearly as great as might have been hoped; there has been little, if anything, in the way of public debate. There have been, so far as is known, no meetings of the kind that were held in the districts at the time of the integration of the former Society. But it is difficult to resist the impression that something quite revolutionary in thought and outlook will be required to amend at all substantially the existing arrangements. For the five-year man they comprise a modest general education culminating, at 17 or thereabouts, in two 'A' level passes — grade unspecified; and for the professional examinations, tuition by post; for the older man — a week's refresher course in techniques, on acceptance by ballot, at an Oxford or Cambridge college.

In closing, one can scarcely do better than quote the remarks of the President of the Law Society at the Brighton Conference:

'I venture to suggest that it is beyond dispute that the essential need of the lawyer of today — namely, to have a knowledge and understanding not only of the theory and practice of the law, but also of human nature and human relations, and of business and Government affairs — is infinitely greater than it was in the days of our fathers or grandfathers. This continually increasing demand for wider knowledge is not something peculiar to the law; it is the common experience of the doctor, the engineer, the architect and, in fact, not of the professions only but indeed of almost every occupation, intellectual or manual . . .'

Yours faithfully,

DONALD COUSINS,

DEPARTMENT OF ACCOUNTING
AND ADMINISTRATION.

University of
Birmingham.

The Accountants' Discount House!

SIR, - In your leading article of October 21st, in connection with the Institute's 'small practitioner' inquiry you stated that firms and individual practitioners are being invited to state in what respects, if any, the remuneration of practising members is inadequate and what methods might be adopted to increase it.

Another aspect of this matter appears in the issue of the *Bridlington Free Press & Chronicle* of December 1st, in an announcement under the heading 'Situations Wanted' inserted apparently by a kind of auditor; one that hath abundance of charge too, God knows what. This announcement reads:

Save 25 per cent. Experienced accountant shortly residing Bridlington will undertake audits, taxation, book-keeping. Minimum 25 per cent saving on present fees.

I do not strain at the position - it is familiar - but at the author's drift (*Troilus and Cressida* III: 3).

Yours faithfully,

Bridlington.

J. C. BEAUVAIS.

When Britain Decimalizes

SIR, - It seems that Britain is about to join the great majority by decimalizing its currency. No doubt, having taken the first step with currency, we shall then go on to the general decimalization of weights, measures and everything else capable of being decimalized. Be that as it may, as accountants we are primarily concerned with currency.

The article 'Look before you leap - another view on decimalization', by Colonel P. R. MacIver (June 24th 1961 issue) was one which I found fascinatingly interesting but I feel he was rather over the head of the 'common man' and into realms beyond the everyday usage of currency. Mr Clayton's article 'Should Britain decimalize?' (September 16th 1961 issue) in his usual penetrating style, was more down to earth and among his suggestions I support wholeheartedly his proposal that the penny should be retained. I feel, however, that there is little point in retaining the penny if we discard the pound.

Those who feel that there is no value in a name should be asked if they find no difference between 'John Smith' and 'Winston Churchill' or between 'Helen Smith' and 'Helen of Troy'. In international currency Britain and the pound are synonymous and to lose our main unit of currency would surely reinforce the suggestion that we are today a second-rate nation. Can anyone imagine France giving up the franc; Germany, the mark; Italy, the lira; Russia, the rouble; or U.S.A., the dollar?

When I first visited France the franc was worth about twopence; since the war I have seen waiters in restaurants give change from pocket books packed thick with dirty notes of varying denominations but often of minute value. In the Bank of Rome when a one-lira note (approximately 1/1750th of a £) was

included in the payment for a travellers cheque, an Italian jocularly remarked to me that I could keep it as a souvenir but I certainly could not purchase anything with it. In Britain today not only does the value of the pound keep dropping, but we keep clipping its size as well! Surely we should maintain the worth of our currency where the choice does lie with ourselves.

Let us not discard lightly our established unit of currency but by retaining it, limit the upheaval of conversion to decimals to the everyday specie usage and leave untouched the insurance and assurance policies, the pension schemes, the stock exchange transactions, the wills and the many other usages of expressed currency.

There are still those among us who love to remind ourselves of the 'good old days' of penny postage and of penny newspapers. Today the penny has an extremely low purchasing power but retaining the pound would permit of a 'shot in the arm' to all the minor currency units by greatly enhancing their value. A hundred pennies to the pound in place of 240 would be an effective bridge of the inflation of the past two decades and perhaps give us 'good new days' of penny postage and of penny newspapers.

The last thing the writer would like to see would be two currencies in circulation at the same time. Please, whatever system be adopted, let us have a period of notice and a fresh start with the units of currency on the appointed day. The old units should cease to be legal tender on that date and be exchangeable at a bank only thereafter, the banks, of course, sending their collections for eventual re-use by the Mint.

Apart from its lack of decimals what are the shortcomings of our currency at present? Surely we have too many denominations of coins - since the elimination of the farthing we are still left with seven, of which the half-crown and the florin cause most confusion because of their small difference in value.

The writer suggests, therefore, that the pound, ten-shilling note, florin and shilling should be retained with their existing values *inter se*, that the half-crown, sixpence and threepenny piece should be scrapped and that the existing copper coinage should be withdrawn and replaced by new halfpenny, penny and two-penny pieces, there being five new pennies to the shilling. This would give:

£1 equals	..	..	..	..	1'00
10s	..	..	..	..	'50
2s	..	..	..	..	'10
1s	..	..	..	..	'05
2d	..	..	..	..	'02
1d	..	..	..	..	'01
$\frac{1}{2}$ d	..	..	..	..	'005

So we would then have two 'paper' units, two 'silver' units and two 'copper' units, with an extra 'copper' unit for small transactions.

Such a system would retain the pound together with the structure of the existing system causing, therefore,

the minimum upheaval in the change to decimals and requiring little mental adaptation from a nation like ours on which so much expenditure is lavished on general education.

Yours faithfully,
Edinburgh 3. ANGUS MACBEATH.

Market Value: Off-licence Business

SIR, — I have a client carrying on an off-licence business who desires to know the approximate market value of the said off-licence.

The business is in a thickly populated suburb of an industrial town in modern premises which are freehold and owned by the proprietor. The annual turnover is in the region of £9,000.

I should very much appreciate the opinion of any of your correspondents.

Yours faithfully,
South Shields. ROBERT RIDDELL.

Post-discontinuance Receipts

SIR, — Section 32 of the 1960 Finance Act brought to charge under Case VI certain receipts which hitherto had enjoyed an immunity from income tax. The section relates to receipts accruing after the *discontinuance* of a trade or profession. Such receipts would include debts or fees which for one reason or another were neither ascertainable nor exigible at the date of termination. My problem relates to architect's fees which at any given point of time are extremely difficult to value precisely. Accountants who have experience of architects' accounts will know exactly what I mean. The problem is this:

A., an architect, terminated his business in October 1954 to go into partnership with another architect. Included in fees owing to him at date of cessation of some £5,000 was £275 being the balance of a fee estimated to be outstanding for local authority work done in 1953.

At that date, all the plans had been drawn, and the buildings substantially completed but not measured. Due to various factors outside A.'s control a very considerable delay occurred before the work was measured and in fact it was July 1959 before he got his final fee. Because of rising costs and other factors it was found that the final cost of the buildings exceeded the contract price by approximately £20,000 and A.'s fee, being a percentage, went up accordingly. In fact the balance due to him finally emerged at £900 instead of £275. The local Inspector of Taxes seeks to assess the increase. I contend he has no right to do so for three reasons:

- (1) The accounts at October 31st, 1954, included a fair and honest estimate of the balance of the particular fee and these accounts were accepted by the Inland Revenue as terminating the liability of the business as it had then existed.
- (2) Had the total debts at October 31st, 1954

yielded less than the estimated amount, there would have been no corresponding tax refund by the Revenue. Some debts did, in fact, yield less, but it is not for the Inspector to pick out the favourable ones.

- (3) It is clear that a profit on a similar book debt arising after April 1960 would be taxable under Case VI of Schedule D, but the money was received in July 1959, and the Inspector of Taxes has no right to anticipate the provisions of the 1960 Finance Act, when Section 32 (6) states that the section does not apply to sums received before April 6th, 1960.

Your readers' views would be appreciated and especially any comments in regard to a situation where A.'s partnership had come to an end in 1957 and he was once again in practice on his own in 1959 when the sum in question was received.

Yours faithfully,
R. FORGHAM.

The Inclusion of Oncost in Stock

SIR, — Apropos the recent correspondence on this subject, perhaps the clearest way to demonstrate what happens when oncost is omitted from work in progress stock evaluation is to give an example:

Finished product cost analysis:

		£
Materials	.. ..	10
Labour	.. ..	20
Oncost	.. ..	60
Profit	.. ..	10
		<hr/>
Sales price		£100 per unit

Assume 100 units in stock, nearing completion:
Stock evaluation:

		£
Materials	.. ..	10
Labour	.. ..	18
Variable oncost	.. ..	2
		<hr/>
		£30 × 100 = £3,000

Sales value recovered two days later £100 × 100 = £10,000

Total out-of-pocket cost in those two days:

		£
Labour	.. ..	2
Packing and delivery	.. ..	2
		<hr/>
		£4 × 100 = £400

Amount (classified as profit) virtually earned in one period and not disclosed till the next £10,000
Less 3,400

£6,600

To satisfy the purist, two days' allocation of oncost might be deducted. At 300 per cent of labour, this would be £6 × 100 = £600, still leaving £6,000.

The undisclosed 'profit' is twice the total stock evaluation itself (for this item).

The example, while tending to exaggerate the effect for purposes of illustration, is by no means improbable in these days of steadily rising oncost in relation to other cost elements.

Similar examples might be worked out for earlier stages in the processing, merely altering the 18:2 labour ratio as required.

An economist would probably claim that, in the case of production against firm orders, an order was worth sales value less marginal cost (no fixed oncost) from the moment of acceptance. That is, *before* the first stage of processing.

It is traditional accounting policy to carry forward the profit margin to the period of actual sale. There is a world of difference between profit and oncost. Profit is what someone pays *you*, oncost is what you pay someone else.

Yours faithfully,

Bexley, Kent.

E. SEAMAN.

Current Law

Winding-up Petition Dismissed: Petitioner to Pay Costs

RE *R. W. Sharman Ltd* ([1957] 1 All E.R. 737) and *Re A. B. C. Coupler & Engineering Co Ltd* ([1961] 1 All E.R. 354), both of which have been referred to in these columns, were distinguished by Pennycuik, J., in *Re A. E. Hayter & Sons (Portchester) Ltd* ([1961] 2 All E.R. 676). The petitioner in this recent case was itself a company, and was a judgment creditor of the debtor company. The petition was presented in the knowledge that a receiver appointed by a debenture-holder had estimated that the unsecured creditors would receive 10s in the pound and was negotiating a sale of the debtor's undertaking; also that after the sale the debtor would call the statutory meeting of creditors under Section 293 of the Companies Act, 1948, for the purpose of going into creditors' voluntary liquidation. The petition was opposed by the majority in value of the creditors and there was no supporting creditor. In these circumstances the petitioner consented to having its petition dismissed, but contended that it should not be ordered to pay costs.

Pennycuik, J., did not find any reason to depart from the ordinary rule that a petitioner who elects not to open the petition and consents to its dismissal must pay the costs of the company and of the opposing creditors. The practice of making no order as to costs in such a case, introduced by Wynn-Parry, J., in *Re R. W. Sharman Ltd*, was, said Pennycuik, J., appropriate where the petitioning creditor had acted reasonably in presenting and prosecuting his petition: his lordship came to the conclusion that in the case before him the petitioner in presenting and prosecuting its petition had acted unreasonably.

Winding-up Petition Dismissed: No Order as to Costs

IN *Re Sklan Ltd* ([1961] 2 All E.R. 680), however, Pennycuik, J., applied *Re R. W. Sharman Ltd*. The petitioning creditor in *Re Sklan Ltd* was the holder for value of a bill of exchange accepted by the debtor company and dishonoured on presentation. The petition came on for hearing on March 6th, 1961, and there were adjourned hearings on April 17th, May 1st and May 15th. By April 21st a receiver of the debtor's undertaking, who had been appointed in the previous December, was in negotiation for the sale of the undertaking (earlier negotiations to this end having failed). In the face of opposition by the majority of the creditors, the petitioner at the hearing on May 15th agreed to the dismissal of the petition on an undertaking to put the company into voluntary liquidation. While it was not denied that the presentation of the petition in the first place was reasonable, it was contended that the petitioner acted unreasonably in prosecuting it on and after April 17th, to which date it had been adjourned with the support of the majority of the creditors. The learned judge took the view, however, that, on the facts, the petitioner had not acted unreasonably, and accordingly made no order as to costs.

In applying *Re R. W. Sharman Ltd*, his lordship pointed out that Wynn-Parry, J., had in that case laid great stress on the fact that the petitioner was a judgment creditor, whose debt could not be challenged. Pennycuik, J., held that a creditor who had not obtained judgment, but whose debt was undisputed, was in the same position: he, too, was entitled to a winding-up order unless other creditors intervened, and if they did intervene, there was no reason why such a petitioner, any more than a judgment creditor, should have to pay costs provided that he acted reasonably.

Death on a Quarter Day

THE testator in *Re Aspinall, Aspinall v. Aspinall* ([1961] 2 All E.R. 751) died on the morning of a quarter day, December 25th, 1954, being at his death entitled to leasehold premises which had been

divided and sublet under four subleases. The question at issue was whether rents payable under these subleases should be treated as capital or income, or partly as capital and partly as income, of the deceased's estate. In two cases the rent was payable quarterly in advance and in one quarterly in arrear on the usual quarter days. In the remaining case, rent was payable in advance in two equal instalments on November 22nd, 1954, and January 24th, 1955.

It is commonly said that the law pays no attention to fractions of a day. Buckley, J., pointed out, however, that there is no general rule that that principle is to be applied in every case, so that in the instant case the testator must be taken to have lived throughout the day on which he died, this being the argument put forward for the remainderman, for whom it was also argued that the rents due on that day became due from the earliest moment thereof. Having taken as the test to be used to decide whether or not the rents ought to be regarded as capital the answer to the question whether at the time of the testator's death a cause of action to recover them had then accrued, his lordship examined the cases where leases had been granted by tenants for life before tenants for life had a statutory power to grant leases, and found established two propositions; first, that the Court does pay attention to the actual moment of the relevant death and does not treat it as an event coterminous with the day on which it occurs, so that the deceased is to be treated as having lived till the last moment of that day; and, secondly, that if the term under a lease continues until the end of a day fixed for payment, rent does not become completely due until the end of that day, with the result that until the last moment of that day, there is no cause of action. It followed that the rents due on December 25th, 1954, being due at midnight, did not form part of the testator's estate at his death and, as the Apportionment Act, 1870, applied, must be apportioned between capital and income. The rent payable on November 22nd, 1954, must be treated as capital.

• Misdescription of Shares

THE testatrix in *Re Tetsall, Foyster and Another v. Tetsall and Others* ([1961] 2 All E.R. 801) became entitled to 750 shares in a company as the result of the death of her husband in 1941. In 1951 she became entitled to a further 6,750 shares, making a total of 7,500, as the result of a capitalization of reserves. By wills made in 1947, 1952 and 1954 she bequeathed to E. 'my 750 ordinary shares'. The gift was in terms specific; that is to say, it was a gift, not of 750 shares out of the testatrix' holding, but of a particular parcel of shares described by her as 'my 750 ordinary shares'. In the 1947 will there was no misdescription, but in the 1952 and 1954 wills the expression used was inappropriate, because the testatrix had by then become the owner of 7,500 shares. There was, however, no evidence, as Cross, J., found, that the testatrix, in repeating the phrase 'my 750 ordinary shares' in

her two later wills, used it to include the 7,500 shares, and his lordship saw no reason to think that the description of the parcel of shares in those wills, though inappropriate, was a reference to the testatrix' total holding: he thought it far more likely that she had misunderstood or forgotten about the issue of additional shares, and was still referring to the original 750, with the result that the bequest did not pass the 7,500 shares to E.

Applying the decision of the Court of Appeal in *Re Cheadle, Bishop v. Holt* ([1900] 2 Ch. 620), Cross, J., held that the gift, though in terms specific, did not fail for uncertainty but passed 750 out of the 7,500 shares: the Court of Appeal had treated a gift which was, like the gift in *Re Tetsall*, in terms specific as being equivalent to a general or demonstrative gift. Cross, J., said that the case before him was really a stronger one, because the testatrix was, in his view, misdescribing a particular parcel of 750 shares.

Mortgagor Dead before Demand for Payment

L WAS a mortgagor under a charge which excluded the statutory power of leasing. Nevertheless, he purported to grant a tenancy to S. without the mortgagee's consent. L. died in 1959 and no personal representative was ever constituted. After L.'s death P., without the mortgagee's consent, purported to grant to K. a lease of a further part of the property. In 1960 the mortgagee demanded payment in a letter addressed to L. at the property and subsequently, payment not having been made, appointed a receiver. The receiver did not accept rent from S. or K., but recommended to S.'s wife that she carry out certain urgent repairs and deduct the cost from the rent, and advised both S. and K. to pay Schedule A tax and deduct it from the rent. It was a term of the charge that a demand for payment might be made on the mortgagor 'by letter sent by post addressed to me at my address as given in this security or at my last known place of business or abode and every demand so made shall be deemed to have been made on the day such letter was posted'.

In *Barclays Bank Ltd v. Kiley and Another* ([1961] 2 All E.R. 849) Pennycuik, J., having pointed out that if a mortgagor grants a tenancy not authorized by the terms of the mortgage, the mortgagee is not bound by the tenancy and can assert his paramount title and treat the tenant as a trespasser, but that the mortgagee and the tenant may by mutual agreement create the relationship of landlord and tenant as between themselves, held, first, that the demand for payment was valid; secondly, that the proceedings were properly constituted although there were no personal representatives of L. who could be made defendants; and, thirdly, that the acts of the receiver, acting as agent for the mortgagee (if he was so doing) *vis-à-vis* the tenants, were not such as to show acceptance of them as tenants by the mortgagee. Accordingly, the mortgagee was entitled to an order for possession against the tenants.

Electronics in the Office

Computers - Today and Tomorrow

COMPUTERS will eventually become part of the equipment of small as well as large companies declares Mr Derek Wragge Morley, formerly scientific editor of *The Financial Times*, in *Automatic Data-processing*¹ a book recently published by the Department of Scientific and Industrial Research.

Mr Morley reviews the growth of the automatic data processing industry in the United Kingdom, describing the principles of the various types of computer, their application, and operation. He describes how the Ministry of Pensions is applying automatic methods to the graduated pensions scheme, the largest single job ever tackled in this way in the United Kingdom.

Reviewing the computer field today, Mr Morley draws attention to some weaknesses of British practice: it has been found, he says, more difficult to instruct computer engineers and programmers in business procedures than to instruct business men in programme procedures. Input and output systems, too, are a source of difficulty as some of the British auxiliary machines are 'significantly slower' than their American equivalents. He is reassuring about the reliability of this expensive equipment: one company, he says, which marketed 70,000 units containing transistors, experienced only one known failure in two years of continued operation. Indeed, it has been found that far more failures are due to mechanical defects than to the electronic equipment.

British and other systems of data processing available in the United Kingdom are described in a useful appendix to the book.

Invoicing by Computer

A HIGH-SPEED electronic data processing system designed to handle 100,000 invoice items per day, and costing about £300,000 has been ordered by Cadbury Bros Ltd. Based on the Ferranti ORION computer, the system will be installed at the company's head office at Bournville with the initial task of daily preparation of customers' invoices as goods are dispatched from various depots. Another function will be the preparation of sales statistics for management. The computer will later handle the payroll of the 12,000 employees in the Bournville factories.

An original feature of the system is the method used for translating the incoming sales information into a form suitable for the data processing equipment. The sales information arrives at the company's offices

on pre-printed order forms, and at present pre-punched cards are pulled from a file. Under the new system, the information will be translated into marks on punched cards which will subsequently be read into the computer either by a direct mark sensing reader or alternatively by a conventional punched-card reader.

To enable this translation to be done quickly and reliably by the operators the order forms will have to be re-designed so that the cards can be laid directly on them and marked at positions corresponding to the printed items ordered. A visual referencing pattern ensures that the cards are placed on the notes quickly and marked with minimum chance of error. The data read from the cards by the mark-sensing machine will be transferred to magnetic tape stores in the computer. It will then be sorted by the computer, and, as a by-product of this operation, the stock levels at the various depots will be obtained and printed out. A second sorting operation will put the data into customer sequence.

Using permanently stored statistical data held in magnetic tape files and the incoming daily sales information, the computer will assemble the invoice data in the sequence for printing and record it on magnetic tape. This tape will then be used to operate two output printers which together will have a capacity of 1,200 lines per minute. At this speed the complete job of calculating and printing all the invoices for one day will take about five hours.

Computer for Dorset County Council

DORSET County Council, have placed an order for an I.C.T. 1301 data processing system which will be used as a general purpose installation to handle all aspects of the work of the Treasurer's department, together with the costing and statistical records of other departments.

The computer will handle creditor payments - up to 3,000 invoices and 1,500 cheques a week - in roughly one-twentieth of the time required by conventional punched-card equipment. These advantages will accrue throughout the fields of payroll, costing and expenditure analysis, while the computer will have spare capacity for such incidental problems as the calculation of the dietetic value of school meals, road census work, and the eleven-plus examination results. Finally, the 1301 possesses the significant advantage that it can be expanded on site.

New Computer Tape System

A NEW high-density magnetic computer tape system, claimed to read and write data 40 per cent faster than any other system in use, was announced recently by the Electronic Data Processing Division of Honeywell Controls Ltd, and is now available for users of the Honeywell 800 and 400 computers.

The new system transfers data to and from magnetic tape at 133,000 decimal digits per second compared with 96,000 per second obtained from previous Honeywell systems. This results from the density of 1112 decimal digits per inch of tape compared with the previous 794 per inch.

¹ Published by H.M.S.O. for D.S.I.R. Price 6s (\$1.08 in the U.S.A.), by post 6s 6d.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, December 6th, 1961, at the Hall of the Institute, Moorgate Place, London EC2, there were present:

Mr P. F. Granger, President, in the Chair; Mr P. F. Carpenter, Vice-President; Messrs J. F. Allan, C. Percy Barrowcliff, W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, J. Clayton, C. Croxton-Smith, E. Hay Davison, W. G. Densem, S. Dixon, W. W. Fea, Sir Harold Gillett, Bt., M.C., Messrs J. Godfrey, G. G. G. Goult, J. S. Heaton, D. V. House, J. A. Jackson, H. O. Johnson, W. H. Lawson, C.B.E., H. L. Layton, R. B. Leech, M.B.E., E. N. Macdonald, D.F.C., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., S. J. Pears, C. U. Peat, M.C., Sir Thomas Robson, M.B.E., Messrs J. D. Russell, K. G. Shuttleworth, R. G. Slack, D. Steele, J. E. Talbot, A. H. Walton, V. Walton, F. J. Weeks, M. Wheatley Jones, J. C. Montgomery Williams, R. P. Winter, C.B.E., M.C., E. K. Wright.

Resignation from the Council

The Council received with much regret the resignation of Mr K. G. Shuttleworth, F.C.A., Sheffield, from his membership of the Council. Mr Shuttleworth had been a member of the Council since 1948

Summer Course Committees

The Secretary reported that Mr J. A. Jackson had been appointed Chairman and Mr J. H. Mann Vice-Chairman of the Summer Course Committee.

Appointments to Committees

The Council appointed Mr R. G. Slack to the following committees:

- Applications Committee.
- District Societies Committee.

European Congress of Accountants 1963

The Council received a report from Sir Thomas Robson on a meeting of representatives of European accountancy bodies held in Glasgow on November 28th, 1961, at which it was agreed that arrangements should proceed for the holding of a European Congress of Accountants in Edinburgh in the week commencing September 8th, 1963. Mr A. McKellar, Past President of The Institute of Chartered Accountants of Scotland, had been appointed President of the congress and Chairman of the Policy Committee. Mr J. C. Stewart, Vice-President of The Institute of Chartered Accountants of Scotland, had been appointed Vice-Chairman of the committee.

American Institute of Certified Public Accountants

The Council received a report from Mr S. John Pears on his attendance at the annual meeting of The American Institute of Certified Public Accountants held in Chicago from October 29th to November 1st, 1961.

Royal Charters and Bye-laws

The amendments to clauses 18 and 31 of the Supplemental Royal Charter of 1948, as approved by the members in general meeting on May 3rd, 1961, and at the subsequent confirmatory meeting, were allowed by Her Majesty in Council on October 24th, 1961. The revised clauses are therefore now effective.

The amendments to bye-laws 2, 42, 54, 58, 61, 62, 63, 79 and 85 as approved by members on May 3rd, 1961, were allowed by the Lords of Her Majesty's Most Honourable Privy Council on October 24th, 1961. The revised bye-laws are therefore now effective (except that in relation to bye-law 42 the amendments do not take effect until January 1st, 1962).

The general effect of the amendments to clauses 18 and 31 of the Supplemental Royal Charter and of the consequential amendments to the bye-laws is as follows:

- (a) Most of the references to 'England and Wales' and 'England or Wales' in the Royal Charters and bye-laws have been replaced as from October 24th, 1961, by references to 'the United Kingdom'; the purpose is to enable an associate or a fellow in practice as a public accountant in Scotland or Northern Ireland to take articulated clerks under precisely the same conditions as an associate or fellow in practice in England or Wales;
- (b) As a consequence of (a), all members resident in Scotland or Northern Ireland (whether or not in practice) will as from January 1st, 1962, pay annual subscriptions at the same rates as those of members resident in England or Wales instead of, as hitherto, the rates applicable to overseas members;
- (c) 'Practice' now means practice as a public accountant in any part of the world (instead of in England or Wales only) except where otherwise provided.

The effect of the amendments to bye-law 63 is that the Council is now empowered to consider applications for exemption from the Preliminary examination and for a reduction in service under articles to four years from members of H.M. Forces who have not had war service. The Council will consider applications under the bye-law only if the applicant is over thirty years of age and has held a regular commission for at least five years.

Amendments for Section A of the *Members' Handbook* will be issued in due course to incorporate the foregoing changes in the Royal Charters and bye-laws.

Registration of Articles

The Secretary reported the registration of 635 articles of clerkship during the last month, the total number since January 1st, 1961, being 2,987.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

- Abrams, Drummond Ernest, A.C.A., *a*1957; †Spain Brothers, McNab & Co, 134 High Street, Tonbridge, Kent.
 Archer, Eric Charles, A.C.A., *a*S1956; *O. & W. B. Haworth, Holyhead Chambers, 1 Holyhead Road, Coventry, and at Blackpool.
 Aslin, John Reginald, A.C.A., *a*1961; Woolley & Waldron, and Barton, Mayhew & Co, Blue Peter House, 8/10 Portland Terrace, Southampton.
 Bailey, Eric Roy, A.C.A., *a*1958; Thwaites & Blackwell, 1 Arkleigh Mansions, Brent Street, Hendon, London NW4.
 Balderstone, John Philip, A.C.A., *a*1957; S. C. Parker & Co, 15 Bridge Road, Wellington, Shropshire, and at Newport (Salop) and Wolverhampton.
 Blakeney, John Samuel, A.C.A., *a*1961; 44 Meadow Road, Kingswood, Watford, Herts.
 Branch, Frank, A.C.A., *a*1959; G. Tattersall, 19 John William Street, Huddersfield.
 Brown, Cyril Henry, B.A., A.C.A., *a*1960; Newton, Armstrong & Co, 4 Dove Court, Old Jewry, London EC2.
 Davis, David, B.Sc., A.C.A., *a*1961; Cohen, Arnold & Co, Ling House, Dominion Street, London EC2.
 Deeks, Douglas John Arthur, A.C.A., *a*1961; Pratt & Co, 44 Robertson Street, Hastings, and at Tunbridge Wells.
 Duckworth, Harold, F.C.A., *a*1930; Robert Parkinson & Co, 4 Braidwood Terrace, North Hill, Plymouth, and at Newton Abbot and Plympton.
 Dye, Michael Dalziel, A.C.A., *a*1960; Glass & Edwards, 3 Stanley Street, Liverpool 1.
 Edkins, George Joseph, A.C.A., *a*1960; Pike, Russell & Co, and Vernon C. Baker & Co, Adam House, 1 Fitzroy Square, London W1.
 Edler, Henry James, A.C.A., *a*S1955; Sewell, Hutchinson & Co, Cross Keys House, 56 Moorgate, London EC2.
 Godsmark, Terence Harry, A.C.A., *a*S1957; †Wheawill & Sudworth, 10 Cork Street, London W1.
 Hamilton, Donald McLaws, A.C.A., *a*1954; W. Y. Thomson & Co, 16 Clapham Junction Approach, London SW11.
 Hannam, Arthur Francis, A.C.A., *a*S1952; †Deloitte, Plender, Griffiths & Co, Midland Bank Chambers, 97 Bute Street, Cardiff, and at Swansea.
 Hoare, Kenneth, A.C.A., *a*S1951; Deloitte, Plender, Robson, Morrow & Co, 5 London Wall Buildings, Finsbury Circus, London EC2.
 Huckstep, Colin Perkins, A.C.A., *a*1956; Huckstep, Weston & Co, 95 Stirling Road, Wood Green, London N22.
 Kaye, Stephen Garth, A.C.A., *a*1957; Kaye, Howarth & Co, Alexandra Chambers, 32 John William Street, Huddersfield.
 Kemsley, Kenneth Jack Zeital, A.C.A., *a*1961; Kemsley & Co, 76 Abbotswood Gardens, Ilford, Essex.
 Keyte, Brian Edward, A.C.A., *a*S1954; *Kingscott, Dix & Co, The Booth Hall, Market Place, Evesham, Worcs, and at Broadway; also at Pershore, *A. J. Feek & Co.
 Laurie, Donald Lansbury, A.C.A., *a*1958; 8 Hamilton Square, Birkenhead, and at Liverpool.
 Levett, Richard Stuart, A.C.A., *a*1959; R. S. Levett & Co, Carlisle House, 8 Southampton Row, London WC1.

a Indicates the year of admission to the Institute.

*a*S Indicates the year of admission to The Society of Incorporated Accountants.

Firms not marked † or * are composed wholly of members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of Chartered Accountants in Great Britain and Ireland.

- Luckman, John William, A.C.A., *a*1961; J. W. Luckman & Co, Pearl Assurance Buildings, 60 Hertford Street, Coventry.
 Lyons, Barry Hugh, A.C.A., *a*1959; Alfred N. Emanuel & Co, Richmond House, 12/13 Richmond Buildings, Dean Street, London W1.
 Mann, John Michael, B.A.(COM.), A.C.A., *a*S1954; Norman Wright & Co, 5a Waterloo Street, Weston-super-Mare.
 Masters, Norris David, A.C.A., *a*1960; 25 Welbeck Street, London W1.
 Merricks, Graham Wyatt, A.C.A., *a*1960; 74 Spencer Road, Caterham, Surrey.
 Middleton, Derek James, A.C.A., *a*1960; Hargreaves, Brown & Benson, 2 Derby Street, Colne, Lancs.
 Milne, John Duncan, A.C.A., *a*1961; Old Bank Chambers, 8 Park Row, Leeds 1.
 Moore, Brian, A.C.A., *a*1961; Warley & Warley and Rigden, Ince & Richards, 13 Bloomsbury Square, London WC1, and at Tonbridge; also at 74 Marylebone High Street, London W1, and Enfield, Hayden Green & Co.
 Moore, John Edward, A.C.A., *a*1961; Walter Moore & Co, 19 Paradise Square, Sheffield 1.
 Packer, William Rees, A.C.A., *a*1959; C. T. Kilner & Co, 21 Lower Belgrave Street, London SW1.
 Pollard, Michael, A.C.A., *a*1961; Michael Pollard & Co, 79 Cranley Gardens, London N10.
 Proud, Kenneth Harold, A.C.A., *a*S1954; Harold Brown & Co, Prudential Buildings, Colmore Row, Birmingham 3.
 Richer, Charles Martin, A.C.A., *a*1952; †Spain Brothers, McNab & Co, 14 St John's Road, Tunbridge Wells, Kent, and at Ashford, Orpington and Tonbridge; also at Dover and Folkstone, †Richard White, Spain Brothers & Co.
 Scott, Eric Leslie, A.C.A., *a*1961; Muir, Moody & Co, 388 Seven Sisters Road, Finsbury Park, London N4.
 Selby, Harvey, A.C.A., *a*1961; H. Selby & Co, 68 The Grove, Edgware, Middlesex.
 Short, John Sidney, A.C.A., *a*1959; Ernest Francis & Son, 37 Winchester Street, Basingstoke.
 Slee, Geoffrey Walter, A.C.A., *a*1956; Smith, Weir & Turner, 16 Oxford Street, Manchester 1; also at Rochdale, E. Turner & Co.
 Smith, Kenneth, A.C.A., *a*S1957; Barnett & Turner, 68 West Gate, Mansfield.
 Spencer, Clement Rodney, A.C.A., *a*1953; Gough & Wright and *Gough, Wright & Co, 11 St James's Road, Dudley, and at Brierley Hill and Stourbridge; also at West Bromwich, Gough & Wright and *Gough, Wright, Smith & Co.
 Stansil, Frank, A.C.A., *a*1958; *S. G. Banister & Co, 15 Golden Square, London W1.
 Sugarwhite, Jeffrey, A.C.A., *a*1961; J. Sugarwhite & Co, 233 Evering Road, London E5.
 Tennant, David Waller, A.C.A., *a*1956; Walker, Fullerton, Hartley & Co, 10 Clarendon Road, Leeds 2, and at Harrogate.
 Vaughan, Edgar Keith, A.C.A., *a*1956; Edgar K. Vaughan & Co, 22/23 Gloucester Mansions, Cambridge Circus, London WC2, and at Stanmore.
 Walker, Brian Cecil, A.C.A., *a*1951; Francis S. Clark & Co, Lloyds Bank Chambers, Teignmouth, and at Exeter and Newton Abbot.
 Watts, Geoffrey Hancer, A.C.A., *a*S1955; Burston, Dimmock & Co, 5 King Square, Bridgwater, Somerset, and at Street.
 Weston, John Thomas, A.C.A., *a*1960; Huckstep, Weston & Co, 95 Stirling Road, Wood Green, London N22.
 Wilkins, David Garth, A.C.A., *a*1956; Wilkins, Hassell & Co, Risborough House, Sycamore Road, Amersham, Bucks.
 Wordingham, Douglas Harold, A.C.A., *a*1961; Warley & Warley, and Rigden, Ince & Richards, 13 Bloomsbury Square, London WC1, and at Tonbridge; also at 74 Marylebone High Street, London W1, and Enfield, Hayden Green & Co.

Admission Void

The Secretary reported that the admission to membership of the following person had become void under bye-law 41:

Dixon, Anthony William, 80 Moor Drive, Great Crosby, Liverpool.

Re-admission to Membership

It was reported to the Council that the following re-admission, made at the Council meeting on November 1st, 1961, subject to payment of the amount required, had become effective:

Skett, John Charles, A.C.A., with †Gill & Johnson, Livingstone House, Hardinge Street (P.O. Box 92), Nairobi, Kenya.

Resignations

The Council accepted the resignations from membership of the Institute of:

Haig, Robert Fairley, A.S.A.A., 2 Meadowhead Place, Addiewell, West Calder, Midlothian.

Mason, Edward Charles, F.S.A.A., 221 London Road, Leicester.

Yarwood, Walter, F.C.A., 37 Parkfield Avenue, North Harrow, Middlesex.

and of the following members with effect from December 31st, 1961:

Growcott, Douglas Ray, F.C.A., 'Larchfield', Churt, Surrey.

Percival, Frank, F.C.A., 600 Wood Lane, London W12.

Straker, Frederick Eaton, F.S.A.A., Shortlands Farm, P.O. Marandellas, Southern Rhodesia.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Stephen Read Aldrich, F.C.A., Preston.

The Reverend Canon Harold Douglass Caesar, M.A., F.C.A., Bournemouth.

Mr Brian Anthony Coakeley, F.C.A., London.

„ Percy Davie, F.C.A., Brighouse.

„ George Fordham, F.S.A.A., Bolton-on-Dearne.

„ Richard Ernest Grainger, F.C.A., Wallasey.

„ Fred Stanley Green, F.C.A., Pinner.

„ Edward Hope, F.C.A., Liverpool.

„ John William Horton, B.COM., F.C.A., Paris.

„ Harry Armitage Hyland, F.C.A., Glasgow.

„ Stephen Russell Lang, F.C.A., Midgham Park, Berks.

„ John Percy Mansfield, F.C.A., Milan.

„ Richard George Harold Martyn, F.C.A., Nottingham.

„ Arthur Lewis Merrick, F.C.A., Oldham.

„ Robert Miller, F.C.A., Romiley.

„ Ian Robert Morgan, F.C.A., Manchester.

„ George Stevens Murray, F.C.A., Paris.

„ Bernard Patton, F.C.A., London.

„ Dudley Howard Pratt, B.A., F.C.A., London.

„ John Norman Struthers, F.C.A., Manchester.

„ Frank Leslie Thomerson, F.C.A., Brighton.

„ William Wallace, F.C.A., Brighton.

„ Jack Ward, A.C.A., Haslingden, Lancs.

„ Percy Woodthorpe, F.C.A., Northwood.

„ Sidney Rupert Yarwood, F.C.A., Liverpool.

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on November 1st, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a fellow of the Institute had been guilty of acts or defaults discreditable to a member within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that he signed the Accountant's Certificate required by Section 1 of the Solicitors Act, 1941, relating to the practice of a solicitor for the accounting period

April 1st, 1957, to March 31st, 1958, which he knew or which he ought to have known was not correct, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and the Committee ordered that the member be admonished but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Administrative Law; by H. W. R. Wade. Oxford. 1961. (Clarendon Press, 21s.)

Anbar Abstracts: edited by H. P. Cemach, F.C.A. (Loose-leaf). From 1961. (Anbar Publications Ltd, presented by H. P. Cemach).

Bartholomew's reference atlas of Greater London. (Bartholomew & Son): 11th edition. 1961. (Bartholomew, 50s.)

Book-keeping for Builders and Surveyors; by S. M. Bell and M. Stewart. 1961. (Pitman, 15s.)

Carter's Valuation of Land for Estate Duty; by R. Carter: second edition by G. B. Paver. 1961. (Estates Gazette, 20s.)

Debit Experience Account: hints to young professional men; by N. J. Hodgkinson. 1961. (Estates Gazette, 12s 6d.)

Family Expenditure Survey: report for 1957-59. (Ministry of Labour). 1961. (H.M.S.O., 12s 6d.)

A Guide to Photocopying in the Office. (Institute of Office Management). 1961. (I. of O.M., 10s.)

A Handbook of the law relating to Landlord & Tenant; by B. W. Adkin: fifteenth edition by R. Walton and M. Essayan. 1961. (Estates Gazette, 65s.)

How to Pay Less Income-Tax; by H. Toch: second edition. 1961. (Museum Press, 18s.)

Input-Output and National Accounts; by R. Stone. Paris. 1961. (O.E.E.C., 21s.)

Irish Income Tax and Corporation Profits Tax; by H. A. R. J. Wilson, F.C.A. and F. N. Kelly. 1957. Fourth supplement 1961. (H.F.L., Presented, 35s and 2s 6d.)

MacGillivray on Insurance Law relating to all risks other than marine; by E. J. MacGillivray: fifth edition by D. Brown. Two vols. 1961. (Sweet & Maxwell, 252s.)

Malaya and Singapore: the Borneo Territories; edited by L. A. Sheridan. 1961. (Stevens, 84s.)

The Management Audit; by T. G. Rose: third edition. 1961. (Gee, 10s.)

Nationalisation of Foreign Property; by Gillian White. 1961. (Stevens, 63s.)

Palmer's Company Guide; by Sir F. B. Palmer: thirty-seventh edition by T. E. Cain. 1961. (Stevens, 21s.)
 Palmer's Private Companies . . . ; by Sir F. B. Palmer: forty-second edition by T. E. Cain. 1961. (Stevens, 15s.)
 The Principles of Auditing; by F. R. M. de Paula, F.C.A.: twelfth edition by F. C. de Paula, F.C.A. 1961. (Pitman, 30s.)
 Productivity in Letterpress Printing. (Department of Scientific & Industrial Research). 1961. (H.M.S.O., 5s.)
 Rating Valuation and Appeals; by W. A. Leach. 1961. (Estates Gazette, 11s 6d.)
 The Responsible Company; by G. Goyder. Oxford. 1961. (Basil Blackwell, 21s.)
 Selection of Staff: proceedings of a conference . . . November 29th, 1960. (British Institute of Management). (1960.) (B.I.M., 9s 6d.)
 Series Studies in Social and Economic Sciences; by R. C. Bernhard, K. D. Mathur and Mary E. Murphy. Washington. 1961. (National Institute of Social and Behavioral Science, presented.)
 The Skills of Interviewing; by Elizabeth Sidney and Margaret Brown. 1961. (Tavistock, 35s.)

Solo Fiddle; by M. Finch. 1961. (Dennis Dobson, 13s 6d.)
 Spicer & Pegler's Income Tax and Profits Tax; by E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A.: twenty-fourth edition by H. A. R. J. Wilson, F.C.A. 1961. Supplement 1961. (H.F.L., presented, 30s and 2s 6d.)
 Staff Reporting and Staff Development; by E. Anstey. 1961. (George Allen & Unwin, 12s 6d.)
 A Standard Account for Landed Property Investment (Chartered Land Agents Society). [1961]. (C.L.A.S., 6s 6d.)
 *Staples on Back Duty; by R. Staples: eighth edition by P. F. Hughes. 1961. (Gee, presented, 30s.)
 Taxation Guide 1961-62; by J. D. Jenkins. Bradford. 1961. [Typescript]. (J. D. Jenkins, 22s 6d.)
 The Television Business: accounting problems of a Growth Industry; by W. B. Ogden. New York. 1961. (Ronald Press, 48s.)

*This book has been presented to all District Society Libraries under the grant of books scheme.

LONDON CHARTERED ACCOUNTANT STUDENTS' ANNUAL DINNER

The forty-eighth annual dinner of The Chartered Accountant Students' Society of London was held at Grosvenor House, London, last Monday, attended by nearly 1,500 members and guests. Mr W. E. Parker, C.B.E., F.C.A., President of the Society, occupied the chair, and the principal guests were Mr Paul F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales; Mr Bernard Miles, C.B.E., founder of The Mermaid Theatre; The Hon. Sir Leslie Scarman, O.B.E., Judge of the High Court; Mr Roy H. Thomson, chairman, Thomson Newspapers Ltd.

Importance of General Knowledge and Culture

Proposing the toast of 'The Students' Society', Sir Leslie Scarman said:

'It is, of course, a matter of great pleasure for me as a member of a very old profession indeed to see an upstart profession so voluminous in numbers as this room portrays you to be. (Laughter.) At any rate to my way of thinking, accountancy is a young profession. It plainly is; and until a comparatively short time ago was regarded as so important to the merchant or trader that he did it all himself. (Laughter.) It has only been under the pressure of specialization that your profession has leapt into the position of prominence and power that I regret to notice it now holds in our modern society. (Laughter.)

'For many years I had the privilege of lecturing to the Students' Society on topics of law - and it is, indeed, one of my happiest memories - and I have in mind that we should emphasize to the students the importance in your profession of a general education and an interest in subjects outside pure accountancy. It is not enough in your profession to have the entrée to the boardroom or the counting-house where you accountants now dominate matters, if you don't know what goes on in the world as a whole. And that you will not learn from the syllabus of your studies appointed for your qualification as a chartered accountant. That you will learn if you make the best use you can of the facilities offered by a students' society.

'I was provided with some literature to indicate to me what the Students' Society is doing and I confess that as an old lecturer I was a little disturbed to see that the

attendances at the lectures were down. But be that as it may, I was delighted to see that the Society is now running residential courses at the ancient universities. For three or four days they assemble at Oxford - or an Oxford substitute if they cannot get Oxford. (Laughter and Cheers.) I was delighted to see that these were being run and also the sort of topics that were being discussed.

Persons of Power

'I expect Mr Roy Thomson will tell you that you should read a newspaper from time to time. (Laughter.) I don't discourage that; one must learn a few things about the unpleasant facts of life. But all I really want to say to you tonight, as a member of an elder sister profession, is that you accountants have elbowed out the engineers from the boardrooms very largely and have put them in the position of specialists - and you are now busy elbowing out the solicitors. (Laughter.) You exercise a sort of serpent-like fascination over business men. I never understand why. You are persons, therefore, either in fact or in embryo, of great power and influence in the managerial society which we are unfortunate to have to live in and I ask you, having this great position of power which certainly your abilities richly deserve, that you should exercise it with an eye on the general values of life and not merely the very technical values that can prevail in boardrooms and counting-houses if persons of general culture are not present in those places. (Applause.)

The response to the toast was made by Mr Brian Arthur, Chairman of the Committee of the Students' Society, who said, after thanking Sir Leslie Scarman for proposing the health of the Students' Society 'with such wit and such charm':

'Sir Leslie touched on a sore spot when talking of the small attendances at the educational activities and I would be right in saying that by far the most popular are the residential courses where a great deal of discussion and good work is done. On our general lectures, the chairman of the Committee made the remark at the dinner two years ago that they attracted an attendance of approximately 2 per cent, about one hundred people. If anything it is rather like the stock-market - it has been declining ever since.

'I want to mention three reasons for this. The first is

probably the fact that it is a sheer matter of time. Articled clerks have a tremendous amount on their plates – a full-time job in the office and then they probably have to flog away at their studies in the evening. The long-awaited report on the education and training of articled clerks has come out and if some of the recommendations mentioned there are adopted that burden will indeed be lightened.

"The second point is on lectures themselves. Please bear in mind that they are not on specific examination subjects; and if you have any reasonable suggestions about speakers and subjects for lectures we will be only too glad to hear from you.

A Common Meeting Ground

"The third point is mainly aimed at principals. It is the question as to whether principals realize the value and importance of the Students' Society in the training and education of their articled clerks. I may be speaking to the converted, but if those here are converted then perhaps they would like to convert some of their brethren. It is very important that articled clerks be given as much opportunity as possible to attend our functions not only from the educational point of view or the sheer social point of view, but because it provides a common meeting ground which is specially important for the articled clerk in a small firm who gets little chance to meet his "fellow sufferers" in other firms. I do ask principals especially, to support the Students' Society, to encourage articled clerks to go to its activities, and to give them reasonable time in which to do so. In actual fact few of our activities take place in office hours.

"I would like to conclude with a very big "thank you" to the officials and staff of the Students' Society for all the help they give us in the day-to-day running of the Society. I would like to single out for mention our Secretary, Mr Carter, without whose help the Society would very nearly come to a standstill. (Applause.)

"My final duty is to propose the health of our President. He is a man with many demands on his time yet he still meets our very heavy demands on him which include visiting branches, other student societies, and coming to many of our functions. He was chairman of the committee on education and training which I mentioned earlier and

although perhaps not everyone agrees with some of the points in that report, I think all will agree that it was a well-produced document that involved a tremendous amount of hard work and which was completely unbiased and very fair. It is yet another example of his interest and devotion to articled clerks and their general welfare. (Applause.)

Parker Report

Proposing the toast of "The Visitors", Mr W. E. Parker referred to his committee's report on education and training for the profession and said:

"I am bound to say, as one of its parents, that I thought that report was a rather good-looking child. Perhaps some of its features were not so well formed as others. Perhaps there were one or two small blemishes here and there, but on the whole a pretty good off-spring. (Laughter.) That babe is now subject to the close scrutiny of all the relatives, over fifty of them – I refer to the committees of district societies and of students' societies. In addition to what they have to say, members of our profession have written blistering comments on our trade papers. And so I have had the salutary experience of seeing this beautiful child appear half-witted, deformed and thoroughly unwholesome to some other eyes. (Laughter.) However, I take some comfort that many of the criticisms have proved to be self-cancelling. None of them really has been universal so I still have hopes that the babe may survive with some of its limbs still attached to its trunk and with a few of its features still vaguely recognizable. I think we shall know before long.

"If I have had something to do with matters affecting the Society I hasten, in the presence of the Registrar of Restrictive Trading Agreements, to disclaim that it is any monopoly of mine! The main burden of the Society's affairs falls on Mr Arthur and his colleagues, ably and devotedly assisted by Mr Carter and a permanent staff under Mr Carter's leadership. I should like to add to Mr Arthur's tribute my tribute to all of them, not only the permanent staff but Mr Arthur and his committee, for all they have done and are doing for the benefit and advancement of our



• AT THE TOP TABLE (left to right): Mr Roy Thomson, Mr P. F. Granger, F.C.A., The Hon. Sir Leslie Scarman, O.B.E., Mr W. E. Parker, C.B.E., F.C.A.

members. And I, too, do not forget those of the staff, particularly Miss Bacon, who have had the enormous task of making the arrangements in detail for this dinner. (Applause.)

'Now I am sure the students here will not take it amiss if I say that educating our members is sometimes rather an uphill task particularly when, as others have said, they are so chary about coming to our lectures. Normally I try to make use of the abnormally large attendance at this particular lecture to say something to our members which is of interest and value. The perennial difficulty, of course, is to think of anything of interest which is of the slightest value or anything of value which is of the slightest interest. (Laughter.)

'As was the case a year or two ago, I have turned to the scriptures for an appropriate text and the text I would direct your attention to is a passage in the sixth chapter of the *Book of Proverbs*. There is a passage which the articulated clerk is recommended to consider and be wise therefrom, to consider the ways of that most industrious and meticulous of all creatures, the ant. And I know the passage is meant for articulated clerks because it begins "Go to the ant, thou sluggard". (Laughter.) However, I don't want to spoil a happy evening by pursuing that sort of line so I propose to fall back on a proverb drawn from the classics and its purpose is directed at the danger of supposing that you know all the answers all the time. No one can be more dangerous or make himself more thoroughly but justifiably disliked than a know-all and I do beg you young men and women who are acquiring knowledge in our profession to remember that the process of acquiring knowledge is never complete and that even the wisest men have lapses from time to time.

'What the proverb says is that "no-one is wise at all times" and just to show you that I really do learn my Latin I will give it in the vernacular and recommend you to take out your pens and pencils and take it down: "*Nemo sapit in omnibus horis*" - and it is not to be translated as "Nobody is safe in an omnibus with ladies". (Laughter and applause.)

Manipulators

Responding to the toast, Mr Bernard Miles referred to accountants as 'the manipulators of society', and added:

'When I speak of manipulators I mean in the osteopathic sense. We know medicines. We take things through our mouths, we go to psychiatrists and have all sorts of quack and other remedies for ourselves, but I find myself - not only in affairs but with my own personal body - that the problem is "Is the skeleton hung straight?", "Is the pelvis in line with the spine?", "Is the skeleton in the right place?" This is where the whole thing starts and I ask you to think of yourselves as the osteopaths of society and of whatever organization you enter to help and work for.'

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr Roy Thomson said:

'I should tell you that when I came from Canada seven years ago I went to Scotland and located myself in Edinburgh. I had been doing fairly well in Canada but thought that if I could make a living amongst Scotsmen I would prove myself and actually it proved to be a postgraduate course in finance. (Laughter.) So you see you accountants and myself have something in common.

'I have been reading the Institute's general information booklet and on page 13 I found a paragraph which should be inscribed in heavy letters and hung up in every boardroom and head office: "By means of cost accounting, budgetary control and other developments in the use of accounting technique, management of a business can be presented with accounting information which is of direct assistance in the formulation of policy and day-to-day control of the business." Personally I would make it a good

deal stronger. I don't know when you discovered that great truth, without it any great business is groping in the dark. I can say modestly that I found it out for myself thirty years ago, for otherwise I might still be selling radio sets in the backwood towns of Northern Canada.

A Different Story

'For years the average business man got along happily without accountants, except for the annual audit. Today it is a very different story. Your advice on matters of national and public importance is welcomed in the highest quarters and business, big business, could not get on for a day without you. You are no longer just the handmaiden to commerce and industry. They now welcome you in your own right for your business ability and integrity, control and leadership, with a well deserved allocation of seats on the board. How often in the last few years we have read of a member of your profession being summoned to aid an ailing business and leading it out of the shadows. I am sure that members of the Students' Society of London who have welcomed me here tonight as a guest will follow in that high tradition.

'I would like to say a word in passing about the students. While they are not part of this toast I would like to give them a little bit of advice, which I mean most sincerely, and echoes, I believe, what was said by a previous speaker. It is that I sincerely advise you to get out in the world and see things and get some broad experience. I believe implicitly that this is the best training anyone can have. I believe that there is nothing more pitiful than a man with good ideas and ability who cannot express himself. To succeed in life you must put over ideas. It is not just good enough to have them; you must express yourself and convince people and "sell" people.

'In conclusion I would like to express my real gratitude to the members of your profession who have served me over many years and without whose great assistance and help I could not have had anything like the measure of success I have enjoyed.' (Applause.)

Voluntary Service

In the course of his response to the toast, Mr Paul F. Granger, President of the Institute, said:

'I would like to mention one or two matters which students might bear in mind. The first is that the greatness and the reputation of this Institute of ours depends on how each one of us does his job and behaves in public and privately. The second is that when you qualify your obligations to the Institute do not finish. You do have to pay, it is true, an entrance fee and annual subscription, but when you join the Institute do remember, and I say this in all seriousness, do remember to take an interest in your district society or branch or group. And, incidentally, if you can, occasions may arise when you can help one of the weaker brethren in the profession.

'Finally remember that these are difficult and exciting days for this country of ours. It is deemed by some rather naïve and laughable to talk about its greatness, but remember you are all here without any impediment being placed in the way of your assembly here. I can stand up, as have other speakers, and within the law we can say pretty well what we like. Freedom does not grow, and it has to be maintained, so amongst other things I refer to this question of voluntary service because that is part of it. See that you make your contribution in those directions.

'Finally, I think and I am sure, that an old-fashioned word called "duty" covers pretty well what I had to say. It links up with some of the cracks made about attendances at lectures and so on. As prospective chartered accountants you have a duty to yourselves, to your name, to your parents, to your Institute and to this great country of ours.' (Applause.)

UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

ANNUAL CONFERENCE AT BRIGHTON

Delegates from twenty-six out of the twenty-nine students' societies of The Institute of Chartered Accountants in England and Wales took part in the annual conference of the Union of Chartered Accountant Students' Societies at Brighton on Friday and Saturday of last week.

Opening prayers by the Rev. Richard A. Boggis were followed by a welcome by Mr A. G. J. Horton-Stephens, J.P., F.C.A., President of the Brighton Students' Society. The conference then formally admitted the Cumberland Students' Society and welcomed them to the Union, and the fifty-three delegates tackled the thirty-six subjects which had been notified to the conference for discussion or definite resolutions.

Mr P. H. Dobson, J.P., F.C.A., of Leeds, the honorary treasurer of the Union, was in the chair for a four-hour session on Friday, and Mr S. H. Reilly, A.C.A., of Newcastle, chairman of the Union, presided for the three hours of discussion on Saturday, after being prevented by an emergency from getting away from Newcastle in time for the Friday session.

Training for the Profession

A group of suggestions was brought before the conference, the purpose of which was to reduce the practical experience required for membership of the Institute and to increase the academic element of training. The conference was not asked to come to any decision on these proposals but strong views were expressed against the reduction of practical experience and on the probable deterioration of the academic teaching which would result if the proposals were adopted.

Lively discussion developed also on motions against alternative questions in examination papers and on leave to sit for one subject alone. The conference voted finally in favour of alternative questions in law papers and of 'referring' in one subject those candidates who failed only in that subject. But on each decision there was a substantial minority opposed to the concession on the ground that it would depreciate the standard for admission to the Institute.

Articled Clerks' Conditions

It was clear from information given by delegates that throughout the country there were principals who were either forbidding their articled clerks to attend students' society meetings or imposing penalties such as loss of lunch time or holidays; the word 'reasonable' was the root of the difficulty. On the other hand, instances were quoted where the effect of such opposition had been mitigated by arrangements which could often be negotiated through the district society. The difficulties of small offices where articled clerks formed the majority of the staff, and of large offices where out-of-town work was frequent, were clearly recognized, but there still remained much unreasonable opposition. The Liaison Committee of the Union were asked to take up this difficult problem again with the Council of the Institute.

Payment of salary during study leave was another vital, though less difficult, subject. The Council of the Institute had stated that 'in the absence of agreement to the contrary, any provision for payment of salary during articled service will apply during a period of full-time absence on study leave'. It was understood that this was a legal requirement, but since salary conditions of articled clerks were so seldom expressly agreed, principals not infrequently used the weapon of forfeiture of salary to cut down the period of study leave. The conference decided to ask the Council of the Institute to draw the attention of members to the obligation not to deprive articled clerks of their salary during study leave.

The conference also asked the Council of the Institute to give positive encouragement to the principle of transfer of articles under suitable conditions so that better and more varied training could be available to potential members of the Institute.

A request that the examiners be asked to give reports after each examination on the mistakes shown to be common by each paper, was referred without dissent to the Liaison Committee for discussion with the Council of the Institute.

Students' Societies' Problems

The difficulty of securing first-class lecturers for students' societies away from the larger towns was discussed. Not only was it difficult to get lecturers to travel to such centres, but, as the societies concerned were usually small, the financial burden was crippling. The small district societies in these areas had only limited funds for grants because their funds from the Institute were calculated on a low capitation basis. It was pointed out that special grants to meet such difficulties could be obtained from the Institute, and the conference was given suggestions from other societies which had helped to overcome the difficulty.

The conference also discussed the problems of providing refectory and lounge facilities for articled clerks and the possibility of closer co-operation with university accounting societies.

Officers of the Conference

The conference selected eight of its delegates, Messrs R. J. Anderson, B. J. Arthur, M. E. Camidge, B.A., J. S. Dain, N. H. Deakin, C. Llewellyn-Smith, H. Nicholson and M. E. Roberts, A.C.A., as well as the Chairman and the Secretary, to constitute the Liaison Committee which would meet members of the Council of the Institute to discuss with them matters raised at the conference and any other subjects of importance to articled clerks or students' societies.

The following officers were re-elected for 1961-62 with the thanks of the conference for their work during the past year: *Chairman*: Mr S. H. Reilly, A.C.A.; *Treasurer*: Mr P. H. Dobson, J.P., F.C.A.; *Lecture Panel Secretary*: Mr D. C. Farthing, F.C.A.; *Secretary*: Mr R. J. Carter, B.COM., F.C.A.; *Auditor*: Mr P. L. Neild, T.D., F.C.A.

Notes and Notices

PROFESSIONAL NOTICES

MESSRS ARTHUR BASS & Co, Chartered Accountants, announce that as from Monday, December 18th, 1961, their address will be Premier House, 150 Southampton Row, London WC1. Telephone: Terminus 6152.

MESSRS H. B. BRITCLIFFE & Co, Chartered Accountants, of 15 Avenue Parade, Accrington, announce that as from December 1st they have taken into partnership Mr ALAN MONK, A.S.A.A., who has been a member of their staff for a considerable time.

MESSRS CHANTREY, BUTTON & Co, Chartered Accountants, of London WC2, announce with deep regret the death on December 11th, after a short illness, of their partner, Mr KENNETH REVELL GRAY, F.C.A., who has been connected with the firm since its inception in 1920.

MESSRS VICTOR CONWAY & Co, Chartered Accountants, of 54 Welbeck Street, London W1 and MESSRS GERALD BEVERLEY & Co, of 44 Talbot Crescent, Hendon, London NW4, announce that they have amalgamated their practices which will be continued in the name of CONWAY, BEVERLEY & Co, from 54 Welbeck Street, London W1.

MESSRS COOK & Co, Chartered Accountants, of Liverpool and Manchester, announce that they have admitted Mr WILLIAM HUMPHREY EVANS, F.C.A., into partnership as from December 1st, 1961. The firm's name remains unchanged.

MESSRS B. DAVIS & Co, Chartered Accountants, of 59 Sloane Street, London SW1, announce that Mr MALCOLM JAMES GARE NEWMAN, A.C.A., who has been a member of the staff for some years, has been admitted a partner in the firm. The name of the firm remains unchanged.

MESSRS MANN, JUDD & Co, Chartered Accountants, London, announce that they have taken into partnership, with effect from December 11th, 1961, Mr GEORGE B. W. OLDHAM, M.A., C.A., and Mr IAN G. BOOTH, A.C.A., C.A. (ALTA.)

MESSRS McLINTOCK, MANN & MURRAY, Chartered Accountants, of 33 King William Street, London EC4,

announce with deep regret the death of their partner Mr FRANK BOOTH, C.A., on November 18th. Mr D. L. ADAM, C.A. (of MESSRS MANN, JUDD & Co), was assumed a partner on December 1st, 1961.

Appointments

Mr H. L. Gibson, F.C.A., has been appointed a director of Daily Mirror Newspapers as from January 1st, and on that date he will also become managing director of Odhams Press.

Mr Sidney Jackson, B.COM, F.C.A., has been elected chairman of the Royal Sovereign Pencil Co Ltd.

Mr D. A. Alcock, A.C.A., secretary and chief accountant of Fras. Hinde & Sons Ltd, has been appointed to the board of the company.

Mr F. W. Shaw, A.I.M.T.A., has been appointed deputy chief accountant of the South Eastern Electricity Board as from March 1962.

COMPANY INVESTIGATION

Mr Edward Rupert Nicholson, F.C.A., a partner in Peat, Marwick, Mitchell & Co, Chartered Accountants, and Mr Ralph Vincent Cusack, Q.C., have been appointed by the Board of Trade under Section 165 (b) of the Companies Act, 1948, as inspectors to investigate the affairs of Majestic Insurance Co Ltd.

WAR DAMAGE WHITE PAPER

There are claims amounting to about £40 million still outstanding for war damage. This is stated in a White Paper published last Monday¹ in which the Government proposes to wind up the existing War Damage Payments Scheme (as announced in *The Accountant* of August 12th last) in a Bill to amend the War Damage Act, 1943.

The White Paper states that uncertainty about development plans and intentions of local authorities on acquisition is a major reason for owners not doing repairs. The Government feels that it would be fair to require owners to commence outstanding repairs at once. It is proposed to set a time limit under the new Bill and that work must be completed within a limited period, generally four years from the time the Act comes into force. The War Damage Commission is to be dissolved and its remaining responsibilities and staff transferred to the Inland Revenue.

¹Final Settlement of War Damage Payments. Cmnd. 1583, H.M.S.O. 1s net.

JOHN FOORD & COMPANY
56 VICTORIA STREET, LONDON, SW1

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

IN PARLIAMENT
£ Sterling: Value

Mr DIAMOND asked the Secretary of the Treasury if he will publish in the Official Report a table showing the internal purchasing power of the £ sterling as 20s in 1914, and then the value for each year since, such value to be expressed in shillings and pence.

Sir E. BOYLE: Yes. The table below sets out the estimated changes in the internal purchasing power of the £ sterling since 1914. The calculation is based on the cost-of-living index between 1914 and 1938 and the consumer price index since then. Figures are not available on a comparable basis for the years 1939 to 1945.

	s	d		s	d
1914 20 0	1935	..	.. 14 0
1915 16 3	1936	..	.. 13 7
1916 13 8	1937	..	.. 13 0
1917 11 4	1938	..	.. 12 10
1918 9 10	—		
1919 9 4	1946	..	.. 7 7
1920 8 0	1947	..	.. 7 1
1921 8 10	1948	..	.. 6 7
1922 10 11	1949	..	.. 6 5
1923 11 6	1950	..	.. 6 3
1924 11 5	1951	..	.. 5 9
1925 11 4	1952	..	.. 5 5
1926 11 8	1953	..	.. 5 4
1927 11 11	1954	..	.. 5 3
1928 12 1	1955	..	.. 5 1
1929 12 2	1956	..	.. 4 10
1930 12 8	1957	..	.. 4 8
1931 13 7	1958	..	.. 4 7
1932 13 11	1959	..	.. 4 7
1933 14 3	1960	..	.. 4 6
1934 14 2			

Hansard, Dec. 5th, 1961. Written Answers. Col. 146.

IRISH REGIONAL COST CONFERENCE

'The measurement of performance in business' was the theme of the Irish Regional Cost Conference by The Institute of Cost and Works Accountants held last month at the Sherbourne Hotel, Dublin. The conference was opened by the President of the Institute, Mr F. M. W. Hird, F.C.A., F.C.W.A., and papers were presented on 'The economic viewpoint', by Mr Garrett FitzGerald, managing director, Economic Intelligence Unit of Ireland, and 'The technical viewpoint', by Mr Harold Norcross, F.C.W.A.

In his paper, Mr FitzGerald said that the greatest single obstacle to economic growth was the direction of social investment towards encouraging people to continue producing inefficiently. It is not, he said, easy to measure this in quantitative terms. 'The instinct to preserve an existing way of life is one which has obvious social merit, and which appeals psychologically to most people'. Referring to the economic survey of Europe between 1950 and 1958 Mr FitzGerald said that it showed the country's rate of economic growth was the lowest in Europe and it was difficult to avoid connecting the slow rate of industrial change and low rate of private investment with that fact.

The work of economists and the work of accountants could be mutually helpful, declared Mr Norcross in his paper. Much human knowledge, he said, depended on comparison and the economist could do much to give the accountant opportunities of comparing results with those of whole groups of companies in the same industry, or even with whole nations.

THE INSTITUTE OF INTERNAL AUDITORS
Irish Chapter

The recently formed Irish Chapter has now been formally recognized by the headquarters of The Institute of Internal Auditors, New York. The officers of the new Chapter are as follows:

President: Mr Neil J. Haughey, of Lough Egish Co-operative Society Ltd.

Vice-President: Mr M. L. Slater, of Aer Lingus T.T.A.

Hon. Secretary: Mr H. J. Curtin, of An Bord Isacaigh Mhara, 67 Lower Mount Street, Dublin.

Hon. Treasurer: Mr P. J. Foley, of Irish Shell Ltd.

The Chapter will usually meet in Dublin. Representatives have been appointed in the Northern (Derry), Southern and Western regions of Eire, as well as in Belfast, and it is hoped that membership will expand in those areas also.

THE CHARTERED INSTITUTE OF SECRETARIES
New President Elected

Sir Denys Lowson, Bt, M.A., F.C.I.S., chairman and managing director of Australian Estates Co Ltd, has been elected President of the Chartered Institute of Secretaries as from January 1st, 1962, in succession to Mr Stuart. M. Rix, F.C.A., F.C.I.S. Sir Denys, who is a former Lord Mayor of London, has served on the Council since 1953.

Mr Kennedy Cassels, M.A., F.C.I.S., and Mr L. R. Murray, F.C.I.S., have been elected Vice-Presidents of the Institute.

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CERTIFIED ACCOUNTANTS' LODGE

The installation meeting of the Certified Accountants' Lodge was held on December 4th at the Banqueting Suite, Colonial House, Mincing Lane, London EC3, when W. Bro. G. L. Barker installed his successor, W. Bro. J. H. Hills, as Master for the ensuing year, and the following officers were invested:

W. Bro. J. A. Gopsill, P.P.G.D. (Warwickshire), *S.W.*;
W. Bro. C. R. M. Davidson, *J.W.*;
W. Bro. J. P. Shaw, P.P.G.ST.B. (Herts), *Chaplain*;
W. Bro. Sydney C. Jones, P.P.G.D. (Middlesex), *Treasurer*;
W. Bro. C. S. Setchell, *Secretary*;
W. Bro. A. C. S. Meynell, *D.C.*;
Bro. R. G. L. Jobson, *S.D.*;
Bro. D. W. Page, *J.D.*;
W. Bro. E. Spencer, *A.D.C.*;
Bro. H. A. P. Miller, *I.G.*;
Bro. R. A. Bishop, *Steward*;
Bro. K. H. Bickmore, *Steward*;
Bro. W. Rapson, *Steward*;
Bro. T. H. Johnson, *Steward*;
Bro. A. W. Nelson, *Steward*;
W. Bro. A. J. Courtney, *L.G.R.*, *Tyler*.

The address of the Secretary of the Lodge is 'Ziarat', Harthall Lane, Hemel Hempstead, Herts.

OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade have announced that Mr Geoffrey Brian Gillvray has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Bradford, Dewsbury, Halifax and Huddersfield; and also for the Bankruptcy District of the County Courts of Leeds, Harrogate, Wakefield and York, with effect from December 4th, 1961.

They also announce that as from November 27th, 1961, Mr Gwilym Thomas Evans has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Croydon, Guildford, Kingston upon Thames, Slough and Wandsworth; and as from December 11th, 1961, Mr John Byerley Clemetson has been appointed an Assistant Official Receiver in Bankruptcy attached to the High Court.

ANNUAL ABSTRACT OF STATISTICS

The recently published 1961 edition of the *Annual Abstract of Statistics*¹, prepared by the Central Statistical Office, in collaboration with the statistics divisions of Government departments, brings together statistics relating to the social and economic affairs of the United Kingdom and gives annual figures, for the year 1938 and for each of the years 1951 to 1960.

The *Abstract* contains 366 tables of official statistics together with an index to their sources. A wide range of subjects is covered by the tables including social conditions, labour, production, national income and

¹H.M.S.O. Price £1 5s.

expenditure, home and overseas finance, banking, insurance and prices. Tables have been included for the first time giving detailed figures since 1945-46 of United Kingdom assistance for overseas development.

INDEX OF TAX CASES

The 1961 Supplement to their *Index and Digest of Tax Cases* has now been issued by the Income Tax Payers' Society. The supplement covers cases decided in the Courts during the year ended July 31st, 1961, and is for circulation only to members of the Society. The Society's address is Abbey House, 2 Victoria Street, London SW1.

ECONOMIC CONDITIONS OVERSEAS

Two new booklets in the series dealing with economic conditions in member and associated countries of the Organization for Economic Co-operation and Development have been issued recently, and contain comprehensive analyses of economic conditions in Canada and Switzerland. The booklets are available from H.M. Stationery Office, price 3s each.

RATING RETURN FOR 1961-62

A return of rates and rateable values¹ published recently by the Ministry of Housing and Local Government shows that the average rate levied in England and Wales for 1961-62 is 20s 9d compared with 19s 10d in 1960-61. The rateable value of all property at April 1st, 1961, was £719,817,000 compared with £702,373,000 at April 1st, 1960, an increase of 2.5 per cent. Receipts of local authorities from rates in 1961-62 are provisionally estimated at £728 million compared with £675 million in 1960-61. The estimated product of a 1d general rate for 1961-62 is £2,925,528 compared with £2,842,200 in the previous rating year. The amount of rates collected per head of population is estimated to be £15 18s as against £14 17s in 1960-61, an increase of 6.9 per cent.

Detailed figures from each local authority area show that the two urban authorities with the highest annual rate poundages during the year under review was Blaenavon and Rhymney, Monmouthshire, each with a rate of 29s 8d. Bournemouth with a rate of 14s 6d (13s 6d in 1960-61) was again the lowest rated Borough in England and Wales. The lowest rated urban district was Tickhill, in the West Riding of Yorkshire, with a rate of 16s 6d.

¹ Rates and Rateable Values in England and Wales, 1961-62. H.M.S.O. Price 5s net.

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THE ACCOUNTANT

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Greetings

To 'our many friends and
readers the world over, we
extend our good wishes for
a Happy Christmas and a
Bright and Prosperous New
Year

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Qualms on Gains Tax

ACCORDING to the final report of the Royal Commission on the Taxation of Profits and Income (Cmd. 9474), there is 'nothing impossible about the introduction or the operation of a tax on capital gains'. Nevertheless, continued the report, 'such a tax cannot be expected to prove a tax of simple structure or one that would be free of a number of arbitrary solutions of its various problems'.

The truth of these conclusions must have become increasingly evident to MR SELWYN LLOYD during recent weeks while his advisers in Somerset House have struggled to devise legislation to implement his proposals for taxing short-term gains. The CHANCELLOR followed the advice of the majority of the Royal Commission and during his Budget address last April rejected a comprehensive tax on capital gains because 'the complications of the legislation and the administrative machine required present difficulties. Also the allowance for losses and the many exemptions required would, in my view, reduce the proceeds to very much smaller proportions than publicly estimated.'

But then in July he expressed the view that certain profits at present tax-free should be brought within the existing system of taxation. They were of two kinds; 'those activities seeking short-term profits, which are more in the nature of speculation than investment, for example, short-term transactions in shares and securities. The second kind are, in effect, trading activities - often in real estate - but cloaked in such a form as to escape liability under the present law'. In the circumstances, it is hardly surprising that the Council of the London Stock Exchange last week-end issued a memorandum raising a number of important considerations, which had no doubt been presented by the chairman, LORD RITCHIE and his colleagues at their interview with the CHANCELLOR earlier in the week.

The memorandum raises two major but distinct issues. The first is concerned with the form of the proposed tax on short-term gains; the second relates to the effects on the working of the stock exchanges in Britain of such a tax, with particular reference to their role as integral parts of the machinery for raising capital, both for the Government and for industry. On the first point the memorandum asks three questions. First, what allowance is to be made for losses? Second, how are short-term gains to be defined? Third, how is the tax to be assessed? In these three questions is to be found the kernel of the problem of capital gains taxation, because the final form of any such tax must be a compromise between equity and administrative considerations.

The treatment of losses cannot be dissociated from the treatment of gains for, the more heavily taxed the gains, the stronger are the grounds for loss reliefs. Generally speaking, and on the basis of American experience, there are no reasons for preventing losses being set against gains and charging only the balance of gains to tax. The problem is more difficult when there is a surplus of losses in any year. While it may be reasonable to carry forward such a surplus against the gains of future years, it is quite impracticable to allow them to be set against other income. When this was permitted in the United States during the 'Great Depression', the yield from the personal income tax fell by over one-quarter. Since then, the American Revenue Code has restricted loss offsets.

For the same reason the Inland Revenue in its memorandum to the Royal Commission on the subject of capital gains proposed that no capital losses should be set against ordinary income. The key to this problem turns partly on the second query raised by the Stock Exchange Memorandum, i.e. what is a short-term gain? The shorter the period, the greater is the incentive for owners of appreciated assets to defer realization until after the end of the statutory period. If it tends to be long, then as the Stock Exchange Memorandum points out, the tax 'will have the effect of locking-up stock because holders will be reluctant to sell' during that period. American experience during periods of high tax rates on gains certainly bears out this warning. On the other hand, the shorter the minimum holiday period, the less effective will be the tax.

American experience demonstrates that the present short-term holding period of six months or less is too short to deal effectively with the speculator. The United States Treasury has expressed the opinion that two years would be more appropriate. This proposal, which would hardly meet with the Stock Exchange Council's approval, must be judged against the background of the United States income tax and its very generous treatment of long-term gains. The loopholes in the American income tax are such that the top rates of income tax are of academic interest only. Many commentators have urged that these rates should be substantially reduced and then the law in respect of capital gains could be tightened up. Judged against this experience, the

Council's suggestion that a percentage tax, 'provided it were not penal would enable the CHANCELLOR's object to be met', yet not 'do irreparable damage to the market', is sensible. But whether the Council's views on an appropriate rate and holding period would bear any similarity to those considered desirable for 'speculators' by the public, is another matter.

How the tax will be assessed is of particular interest to the Council of the Stock Exchange, since the requisite information which is hardly likely to be willingly provided by the taxpayer, must come from the brokers. Some method of notifying the Inland Revenue of net gains paid to investors will be necessary if only to check the taxpayers' returns, but whether the existing staffs will be able to provide that information is questionable. If the cost of operating the tax is thrown on to the brokers, in much the same way as the cost of P.A.Y.E. has been shifted on to employers, the cost of share purchases and sales is likely to rise.

The Council's memorandum dwells at some length on the vital function of the stock exchanges as security markets and notes that no free market can operate efficiently without a certain element of speculation. Furthermore, the dangers of the 'locked-in' problem if short-term gains were to be subject to income tax and surtax, are very real. In the opinion of the Council 'it would be difficult to over-emphasize the gravity of the damage which would be done to the whole machinery of marketing securities', if such tax rates were to apply to short-term gains. Any restriction on the free working of the market would be especially undesirable at the present time with the prospect of Britain's entry into the Common Market and would adversely affect London's position as an international financial centre. The memorandum also points out that any tax which might affect the market in securities would have undesirable repercussions on the new issue market.

Whatever the opinion of the reader on the Council's case, the fact remains that LORD RITCHIE and his colleagues have performed a useful service in drawing attention to the consequences to at least one part of the economy that may flow from what can at best be described as an unfortunate decision made on political grounds. Political expediency and taxation make poor bed-fellows.

Stamp Duties on Companies and Shares

by GEORGE C. MASON

IN the preface to a leading work on the stamp duties it is stated that as long ago as 1862 it was said that there was no branch of the law as complicated as the Acts relating to the stamp duties. That dubious honour may now belong to other branches of *r  venue* law; if so, the reason may well be that stamp duty law is not as extensive as that of other revenue legislation.

Types of Duty

The types of duty chiefly affecting company shares or securities, whether in respect of issue or transfer, are as follows:

- (1) Duty paid in respect of a company's capital (company capital duty).
- (2) Duty payable on the loan capital of a company or corporation established in the United Kingdom (loan capital duty).
- (3) Duty payable on the transfer of shares or stock.
- (4) Duty payable on the transfer of property by a company.
- (5) Duty payable on the issue or transfer of marketable securities.
- (6) Duty payable on share warrants or stock certificates to bearer.

Company Capital Duty

If a company is established by virtue of the Companies Acts, the duty on its capital is regulated by Section 112 of the Stamp Act, 1891; if it is established otherwise, (e.g. by Act of Parliament) it is regulated by Section 113 of the 1891 Act. Under both sections, duty is payable on the nominal capital (i.e. the maximum amount the company is authorized to issue) and on any increase thereof.

The duty which was originally 2s per £100 now stands at 10s per £100 by virtue of Section 41 of the Finance Act, 1933. The only difference in significance between Sections 112 and 113 is that under the former section a statement of capital (which, in fact, bears the stamp) is to be delivered to the Registrar of Companies upon incorporation, whereas under Section 113 the statement of capital (which also bears the stamp) is to be delivered within one month after the date of the letters patent or the passing of the Act by which the company is created.

Relief from company capital duty is granted under Section 55 of the Finance Act, 1927. This section applies when a company is registered, or has its share capital increased, if already registered, with the object of acquiring either the assets or not less than 90 per cent of the issued share capital of some other company. The section requires that the consideration for such acquisition must be the issuing of shares of the acquiring company to the company from which the assets are acquired (or its shareholders) in the case of taking over assets. When shares are to be acquired the consideration must be the issue of shares to the shareholders of the company whose shares are acquired.

If the transaction comes within the purview of the foregoing conditions then, by virtue of Section 55, the nominal share capital of the acquiring company (or the share capital resolved to be increased if the company is already formed) is to be reduced by the lower of the amount of the share capital of the company from which the assets or shares were acquired, or the amount to be credited as paid up on the shares to be issued by the acquiring company.

It may be observed that the taking over or discharge by the acquiring company of any liabilities relating to the acquired company is to be disregarded as affecting any of the indicated transactions.

Loan Capital Duty

Loan capital duty arises under Section 8 of the Finance Act, 1899. The original duty of 2s 6d per £100 has been increased by Section 52 of the Finance Act, 1947, to 5s and is payable on the issue of loan capital by a local authority, corporation, company, or other body of persons formed or established in the United Kingdom.

Probably the chief source of loan capital is local authority borrowing, the definition of loan capital in subsection (5) of Section 8 of the 1899 Act being as follows:

'any debenture stock, county stock, corporation stock, municipal stock, or funded debt, by whatever name known, or any capital raised by any local authority, corporation, company, or body of persons formed or established in the United Kingdom which is borrowed, or has the character

of borrowed money, whether it is in the form of stock or in any other form. . . .

It seems that it is not essential to loan capital that there should be a liability to repay within any specified period although the word 'borrowed' might connote this. The essential element is the creation of a debt and upon these terms a perpetual debenture is loan capital (*Attorney-General v. Regents Canal Co* ([1904] 1 K.B. 263)).

There are fundamental differences between loan capital and the authorized capital of a company giving rise to company capital duty. Duty in respect of loan capital is on the amount actually borrowed; while duty on company capital is on the amount authorized, which may greatly exceed the amount issued. Again, while loan capital constitutes a debt of the borrower, company capital is not borrowed and is not a debt of the company (per Lindley, L.J., in *Verner v. General & Commercial Investment Trust* ([1894] 2 Ch. 239 at page 265)).

Section 8 of the Finance Act, 1899, has been amended by Section 29 of the Finance Act, 1934, to the effect that the expression 'loan capital' does not include any capital which cannot be dealt in on a stock exchange. Loan capital could in certain circumstances be charged under the heading - 'Mortgage, Bond, Debenture, Covenant' in the Stamp Act, if the loan was secured by a debenture. A debenture is a written promise to pay a debt (*Collins v. Collins* (1759) 2 Burr 820) and so would come within the purview of that heading.

Conveyance and Transfer Duty (Shares etc.)

In the ordinary case, transfers of shares or stock as between one shareholder and another are subject to *ad valorem* duty at £2 per cent under the heading 'Conveyance or transfer on sale' in the First Schedule to the Stamp Act. The chief exceptions are as follows:

- (1) Transfers of Government stocks are exempted from duty (see General Exemptions from all Stamp Duties, First Schedule, Stamp Act).
- (2) Canadian Government stock, and stock to which the Colonial Stock Act, 1877, applies (i.e. stock of a colony transferable in the United Kingdom and registered with the Inland Revenue) is subject to a reduced duty of 10s per cent (heading, 'Conveyance or Transfer').
- (3) Transfers of stock of local authorities issued after the beginning of 1953. (New local authority stocks are subject to the reduced duty of £1 per cent (Section 31, Finance Act, 1953).)
- (4) Conveyances and transfers which do not exceed

£6,000 are subject to the reduced rate of 15s per £50, with further reliefs on steps down from £6,000 (Section 73, Finance (1909-10) Act, 1910; Section 37 (2), Finance Act, 1930; Section 54, Finance Act, 1958). This does not apply to stock or marketable security* (see below).

- (5) Transfers to the International Bank for reconstruction and development are exempt from duty (Section 42, Finance Act, 1951).
- (6) Transfers of property from one company to another when one company is the owner of not less than 90 per cent of the shares of the other, are exempt from duty. (Section 42, Finance Act, 1930).
- (7) Conveyances or transfers to charities are at 1 per cent (Finance Act, 1947, Section 54).

It will have been noted that 'stock' and 'marketable security' are excluded from the reduced rate relief indicated at (4) above. Stock is defined in Section 122 of the Stamp Act as

'any share in stock transferable at the Bank of England or at the Bank of Ireland, and India promissory notes and shares in the stock or funds of any foreign or colonial government or county council, corporation, company or society'.

Shares come within the definition of stock (*Verner v. General Investment Trust* ([1894] 2 Ch. 239)). Units in unit trust schemes are deemed to be stock for stamping purposes (Section 54, Finance Act, 1946). It is possible that only debentures repayable at the end of a long period are within the definition (*Attorney-General v. South Wales Electric Power Co* ([1919] 2 K.B. 636)).

Marketable Securities

The sections relating to marketable securities are quite the most difficult in the Stamp Act.* It is essential to appreciate what a marketable security is and the first quality to note is that it is, in fact, *marketable* in the sense that it is capable of being sold on a stock exchange in the United Kingdom, although there need not actually be a market for the security at any particular time (*Texas Land & Cattle Co v. C.I.R.* ([1888] 4 R. (Ct. of Sess.) 69)). It must also be a security for money borrowed (*Brown, Shipley & Co v. C.I.R.* ([1895] 2 Q.B. 598)), and it is therefore not the same thing as a share of a company which gives rise to duty under Conveyance or Transfer, *ad valorem*, or, on the incorporation of the company, to company capital duty.

While Section 122 of the Stamp Act (which also defines 'stock') defines a marketable security as a security capable of being sold on a stock

exchange in the United Kingdom, a further definition appears in Section 82. This, however, is for the purposes of charge of duty; that is, for the purpose of setting out the circumstances under which a marketable security will become subject to duty. For the purpose of Section 82, a marketable security is defined as:

- (i) a marketable security made or issued by any company or body of persons, incorporated or otherwise, which is established in the United Kingdom;
- (ii) a marketable security of any foreign state, or a foreign or colonial municipality, or of a foreign or colonial company ('foreign securities') which is (a) made or issued in the United Kingdom or (b) is offered for subscription and delivered to a subscriber in the United Kingdom or (c) the interest of which being payable in the United Kingdom, is transferred therein;
- (iii) one which, being created by a colonial government, would, if in fact created by a foreign government, be a colonial security.

It should be noted that there is nothing in Section 82 to bring within charge a foreign security merely transferable by delivery in the United Kingdom. Accordingly, Section 4 of the Finance Act, 1899, imposed a special duty of 1s (since increased as will be shown) on a marketable security (that is, a marketable security as defined by Section 122 but not charged by Section 82) transferable by delivery and created by a foreign government, or foreign or colonial municipality, or company. The charge does not extend to colonial government marketable securities transferable by delivery in the United Kingdom.

In the First Schedule to the Stamp Act, under 'marketable security', there appears the following:

- '(1) Marketable security, being (a) a colonial government security or (b) being a security not transferable by delivery or (c) being a security transferable by delivery and bearing date or signed before or on the 6th day of August 1885.'

Securities under heading (1) bear the same *ad valorem* duty as a mortgage, the current rate being 5s per £100 (per Finance Act, 1947). The duty here imposed is a duty on creation or issue and not on transfer, and it should be noted that what is charged (apart from (c) which is now of no importance), is (i) colonial government securities whether transferable by delivery or not; (ii) non-colonial government securities which cannot be transferred by delivery. The rate of 2s 6d on colonial government securities transferable by

delivery only was doubled by the Finance Act, 1920, and again by the Finance Act, 1947, so that the rate is 10s per £100.

- '(2) Transfer, assignment, disposition or assignation of a marketable security of any description:

Upon a sale thereof - see Conveyance or Transfer on Sale.

Upon a mortgage thereof - see Mortgage of Stock or Marketable Security.

In any case other than a sale or mortgage - 10s.'

The duty here is a transfer duty and not an issue duty. The transfer is a written transfer and not by delivery and the same applies to a mortgage. The duty applies equally to colonial government marketable securities if transferred in writing and to non-colonial government marketable securities so transferred. The current transfer rate of £2 per cent, and the current mortgage rate of 5s per cent, apply.

- '(3) Marketable security (except a colonial government security) being a security transferable by delivery and bearing date or signed or offered for subscription on or after August 6th, 1885.'

The duty here imposed was 1s per £10 (as applied under Section 4 of the Finance Act, 1899, on foreign securities transferable by delivery in the United Kingdom and from which the duty here imposed should be distinguished). The duty under (3), like that under (1), is an issue duty and not a transfer duty. It does not apply to colonial government securities which on issue, whether transferable by delivery or not, are stamped as mortgages with an increased rate if transferable by delivery. The rate of duty has been increased as will be shown. The position created by the Stamp Act, 1891, and by Section 4 of the Finance Act, 1899, in respect of marketable securities may accordingly be expressed as follows:

- (a) Colonial government securities, not transferable by delivery, are to be stamped at the mortgage rate and those transferable by delivery at double the mortgage rate, when issued, and if they are in fact transferable by delivery they may be so transferred without further duty.

- (b) Non-colonial government securities are, on issue, to be stamped as mortgages if they are not transferable by delivery, and any subsequent transfer (which must be in writing) is to be stamped as a conveyance.

- (c) All transfers of marketable securities not transferable by delivery, including colonial government securities, are to be stamped as conveyances on sale.

- (d) Non-colonial government marketable securities transferable by delivery (including foreign securities so transferable and charged by the

Finance Act, 1899) are to be stamped at the (since increased) rate of 1s per £10.

The duty on colonial municipal securities transferable by delivery, which, as already stated, was originally 1s per £10, is now 4s per £10, while the duty on non-colonial government securities transferable by delivery is now 8s per £10. It may be again observed that the duty here being considered is an 'issue' duty.

The issue duty applicable to colonial government securities which, it will be recollected, if not transferable by delivery, were to be charged as mortgages, was at 2s 6d per cent. This rate has since been increased to 5s by the Stamp Act, 1947. Colonial government securities transferable by delivery were, however, subject to 5s per cent by the Finance Act, 1920, and increased to 10s per cent in 1947.

Section 13 of the Finance Act, 1911, gave certain reliefs in respect of marketable securities, other than colonial government securities, transferable by delivery and repayable within periods not, respectively, exceeding one and three years. The original 1s per £10 in the Stamp Act was reduced to 3d and 6d for the two periods; however, as a result of the Finance Acts of 1920 and 1947, the respective duties are 1s and 2s per £10. This applies to colonial municipal securities transferable by delivery as well as to other non-colonial government securities.

Share and Stock Warrants

We now turn to the heading 'Share warrant issued under the provisions of the Companies Act, 1867, and Stock Certificate to Bearer' in the Stamp Act, 1891. The duty in respect of such instruments is three times that of conveyance or transfer on sale duty, namely, £6 per cent.

The duty, it will be noted, was initially imposed in respect of share warrants issued under the provisions of the Companies Act, 1867, and is therefore confined to British share warrants. The relevant provisions are contained in Sections 27 to 36 of the Act of 1867 which are now replaced by Sections 83 and 112 of the Companies Act, 1948.

The effect of these provisions is that a share warrant to bearer only comes within the charge if it is

- (a) issued by a company limited by shares;
- (b) the shares are fully paid up;
- (c) the warrant is transferable by delivery;
- (d) the holder of the warrant, by reason of being so, is a member of the company.

There is, therefore, no confusion between a share warrant to bearer and a marketable security

transferable by delivery, the essential qualities of which are quite different.

It is much more difficult to distinguish the second charge, that of stock certificate to bearer, from a marketable security transferable by delivery. The only definition of 'stock certificate to bearer' is that contained in Section 108 of the Stamp Act which provides that the expression includes every stock certificate to bearer issued under the Local Authorities Loans Act, 1875, 'or any other Act authorizing the creation of debenture stock, county stock, corporation stock, or municipal stock'.

Under the Local Authorities Loans Act, local authorities may issue debentures, debenture stock and annuity certificates, and all these issues charge the 'local rate or property'. Stock certificates to bearer issued under the provisions of 'any other Act' could equally constitute a charge, and if all such issues are transferable by delivery, there is not, it would appear, any fundamental distinction between them and a marketable security transferable by delivery. The distinction, however, seems to be that, where a charge exists, a stock certificate to bearer as opposed to a marketable security, must be issued under the authority of some Act, whether the Local Loans Act or otherwise, and whether public or private. Where there is no charge the difficulty does not exist. The definition in Section 108 of the Stamp Act does require that the stock certificate to bearer should be British since the Acts referred to must, of course, be British.

There is no provision under the heading in the 1891 Stamp Act to charge share warrants . . . and stock certificates to bearer when created by a company or body of persons outside the United Kingdom. These are charged, like marketable securities, under Section 4 of the Finance Act, 1899. The original duty of 1s per £10 has been three times doubled, the last time being under the Finance Act, 1947, bringing the rate to 8s per £10 or 4 per cent.

It may be observed that Section 4 (2) of the Finance Act, 1899, imposes a duty on every instrument to bearer which is not a share warrant or stock certificate to bearer. The present rate is 6d for every £25 of nominal stock.

Stock certificates to bearer in respect of colonial government stocks have a special rate. The original duty was 2s 6d per £100 under Section 2 of the Colonial Stock Act, 1877 (if the duty was not compounded); this was increased to 5s by the Finance Act, 1920, and again doubled by the Finance Act, 1954.

The Singular Case of Double Entry

by C. O. MERRIMAN, F.C.A.

AGROWING profession periodically takes a backward look at the stepping-stones in time which have marked its growth and takes the opportunity of according homage to the early pioneers who have blazed the trail of its development.

Such a pioneer was Mycroft Holmes, the elder brother of Sherlock. He was a founder-member of one of the leading accountancy bodies, a man whose claim to fame and distinction had been so often pronounced by his world-famous brother, but whose centenary was overlooked in 1947 by the accountancy profession, perhaps out of deference to his self-imposed wish for mediocrity and also, perhaps, due to the fact that unlike his brother, he lacked a Boswell in the shape of Dr Watson.

His credentials for consideration were so often stated by Sherlock:

'Mycroft holds some small office under the British Government. He draws four hundred and fifty pounds a year, remains a subordinate, has no ambitions of any kind, will receive neither honour nor title, but remains the most indispensable man in the country.'

As Holmes had pointed out in the *Case of the Greek Interpreter*, Mycroft was a Treasury auditor and was acknowledged to have an extraordinary facility with figures.

• Pioneer of Management Accounting

Mycroft would have been in accountancy practice about the period from 1872 to 1907 and one feels that he must have been one of the early pioneers to appreciate the impact of management accounting on the future economy of Great Britain. His computer-like mental faculties were borne out by Sherlock's observations in *The Case of the Bruce-Partington Plans*, when speaking of Mycroft's position in the Treasury:

'He is the British Government. He has the tidiest and most orderly brain, with the greatest capacity for storing facts of any brain living. The same great powers which I have turned to the detection of crime have been used for this particular business. The conclusions of every department are passed to him, and he is the central exchange, the clearing-house, which makes the

balance. All other men are specialists, but his specialism is omniscience. We will suppose that a Minister needs information as to a point which involves the Navy, India, Canada and the bi-metallic question; he could get his separate advices from various departments upon each, but only Mycroft can focus them all, and say off-hand how each factor would affect the other. They began by using him as a short-cut, a convenience; now he has made himself an essential. In that great brain of his, everything is pigeon-holed, and can be handed out in an instant. Again and again his word has decided national policy. He lives in it. He thinks of nothing else save when, as an intellectual exercise, he unbends if I call upon him and ask him to advise me on one of my little problems.'

The close relationship and mutual admiration of the two brothers is best illustrated by Sherlock's consultation with Mycroft in his more difficult cases. Although poles apart in physical appearance, in temperament, and in habits, there was a deep understanding between them. Mycroft's desire for obscurity did not inhibit him in any way from assisting in developing his brother's practice . . . in publicizing the services he offered, in bringing the gifts of his genius to the close support of Sherlock when he wished a second opinion, together with other means of practical assistance which were not so apparent.

Maintaining the Peace

Mycroft was largely responsible for maintaining the peace between Sherlock and his landlady, Mrs Martha Hudson, over the many curious incidents that occurred at 221B Baker Street. All the evidence points to a strong influence preventing the tenancy of the consulting rooms being terminated justifiably by an irate landlady. In the opening paragraph of *The Dying Detective*, Dr Watson states:

'Mrs Hudson, the landlady of Sherlock Holmes, was a long-suffering woman. Not only was the first-floor flat invaded at all hours by throngs of singular and often undesirable characters, but her remarkable lodger showed an eccentricity and irregularity in his life which must have sorely tried her patience. His incredible untidiness, his addiction to music and strange hours, his occasional revolver practice within doors, his weird and often malodorous scientific experiments, and the

atmosphere of violence and danger which hung around him made him the very worst tenant in London.'

Sherlock Holmes admired his brother for his business acumen and realized that his accountancy qualification had given him a discipline which he himself did not possess. A combination of ancestors who were county squires, and a grandmother who was a sister of Vernet, the French artist, had perhaps in his case brought about an aversion towards the financial aspect of his profession and had had a very definite bearing on the subject of fees. Dr Watson was certainly aware that Sherlock's professional expertise was not linked with financial advancement, as the latter's pronouncements made clear so often. In *The Case of Thor Bridge*, Holmes, when being pressed to take the case, said: 'My professional charges are upon a fixed scale. I do not vary them, save when I remit them altogether.' Dr Watson, in *The Case of the Speckled Band*, said: 'For, working as he did rather for the love of his art than for the acquirement of wealth, he refused to associate himself with any investigation which did not tend towards the unusual, and even the fantastic.' Sherlock repeats time and again: 'As to reward, my profession is its reward.'

Remuneration in Specie

Another sad reflection on the commercial acuity of Holmes was the fact that he was inclined towards accepting remuneration *in specie*. Among many instances were the acceptance of Irene Adler's photograph, *the only woman*, in full compensation for his services to Wilhelm Gottsreich Sigismond Von Ormstein, Grand Duke of Cassel-Falstein, and hereditary King of Bohemia, and an emerald tie-pin from 'a certain gracious lady'. The result was that his financial position remained unrelieved but the consulting room at 221B Baker Street was littered with sentimental bric-à-brac.

Out of the sixty cases reported in the saga, the question of fees arose only in a very small proportion. It was therefore not surprising to learn that Sherlock had to turn to Mycroft for financial assistance. There is a considerable weight of opinion towards the belief that in the early years of the practice, Mycroft was responsible for the rent of the Baker Street chambers. Certainly when Sherlock was engaged in the odyssey which took him to the Head Lama in Tibet and to the Khalifa at Khartoum after the incident with Moriarty at the Reichenbach Falls, this information was only imparted to Mycroft as he was providing the funds to finance the trip.

Dangerous Stratagem

It has always remained something of a mystery why Sherlock Holmes impersonated an accountant in *The Case of the Stock-broker's Clerk* and took Dr Watson along on this investigation as his audit assistant. It was a dangerous stratagem to employ and a subterfuge quite easily penetrated by a natural question on taxation or on a matter of commercial advice which falls within an accountant's daily experience. To amplify the matter, the circumstances under which his advice was sought in this case were as follows: Mr Hall Pycroft, a stock-broker's clerk, answers an advertisement for an appointment with a firm of stock-brokers, Messrs Mawson & Williams, of Lombard Street, and is accepted on the strength of his written answer. Before he arrives at the firm's offices to commence his duties, he is approached by Arthur Pinner, alias Beddington, a notorious forger, and is offered a far better position in the Birmingham offices of the Franco-Midland Hardware Co Ltd as the local manager. Arthur Pinner secures a copy of Pycroft's handwriting during the interview about the Birmingham appointment which Pycroft accepts. On arrival in Birmingham, Pycroft is not impressed with the appearance of the company's offices, is a little taken aback when he finds that he is expected to spend most of his working day as the local manager copying out the names of hardware agents in a Paris trade directory, and as his suspicions develop, decides to seek the advice of Holmes.

Holmes wishes to meet Pinner's brother, who is the Birmingham company's financial representative, and decides to accompany Pycroft to an interview in the role of an accountant, accompanied by Dr Watson. The case is resolved when Beddington, posing as Pycroft, breaks into Mawson & Williams' premises but is arrested. Holmes' services are anticipated by this denouement.

For Sherlock, a past master of disguise ranging from an elderly Italian priest or an old lady to a French *ouvrier*, not to have considered some far easier method of meeting the Birmingham Pinner than by means of the risky stratagem of the façade of an accountant, may always remain one of the unresolved mysteries of the saga. But is not the real explanation quite simply that the disguise as an accountant represented a small token of homage to a brother for whom Sherlock had so much admiration and respect and to whom he would always be grateful for the material assistance given in the early stages of his practice, at 221B Baker Street?

Enchanted Behaviour of Timeless Numerals

by FRED T. NEELY, C.P.A.

THE skilful use of Arabic numerals is a never-ending adventure. At any moment, the moving pencil may trace a magic pattern. With eye and mind alert, mental calculations can be faster than the rapid movements of a million dollar machine.

What is an eighth of 8,888? The answer is seen before the hand can reach the machine—1,111. An easy computation like this is a frequent occurrence on an inventory sheet in the United States, where a sum of money is a very simple expression in Arabic numerals. The United States monetary unit is, of course, the dollar, consisting of 100 cents. The cent piece, often called a penny, and less frequently a copper, is the smallest coin currently in circulation in the United States.

The dollar is written as \$1.00. It may be obtained as a silver coin, but is mainly circulated as a paper note—or bill as we call it in the States. All larger values circulated are paper bills. Except for a few two-dollar bills, this paper is issued as five-dollar bills or as multiples of five. Coins besides the dollar and the cent are:

The half-dollar or 50-cent piece written as	\$.50
The quarter or 25-cent piece written as	.25
The dime or 10-cent piece written as	.10
The nickel or 5-cent piece written as	.05

The business day in the United States is crowded with computations with the multipliers consisting of the dollar, its multiples and its fractions.

Quantities sold by weight afford constantly recurring opportunities for quick mental calculations. Eighty-eight pounds at 10 cents per lb. is seen to be \$8.80 at the quickest glance. If the price is $12\frac{1}{2}$ cents per lb., a slightly greater degree of skill is needed for the mental calculation. The price of $12\frac{1}{2}$ cents bears the same relationship to the dollar as $12\frac{1}{2}$ bears to 100. It is one-eighth of a dollar. The product is eleven dollars, one-eighth of 88, written as \$11.00.

Manipulations with Fractions

The alternative use of different forms of fractions in calculations offers a great reward for skill when articles are priced by the dozen and the quantities are listed in term of units. Merchants who live every day with their merchandise and their cost marks, should know from long-

imbedded memory that a small article purchased at \$1.50 per dozen costs $12\frac{1}{2}$ cents each or one-eighth of a dollar. If 88 items are listed in the inventory at \$1.50 per dozen, the value would be \$11.00 in accordance with the example shown in the above computation.

Other opportunities that provide the substitution of a quick mental division by 8 for a longer multiplication are illustrated as follows:

Price per dozen	Unit price	Substituted fraction of dollar	Value 88 items
\$ 4.50	\$.37 $\frac{1}{2}$	$\frac{3}{8}$	\$33.00
7.50	.62 $\frac{1}{2}$	$\frac{5}{8}$	55.00
10.50	.87 $\frac{1}{2}$	$\frac{7}{8}$	77.00
13.50	1.12 $\frac{1}{2}$	$\frac{9}{8}$	99.00

The practical observation could be made here that quantities of 88 will not occur with a high degree of frequency. This short cut furnishes the same simple calculation for listings of 8 and its many easily divisible multiples, for instance, 16, 24, 32, 40, etc. The easy helpfulness of this rule is not limited to exact multiples of 8. For instance, with the preceding chart showing the listing for 88 items, the amount for 89 and 90 would follow as a natural mental picture:

Unit price	Substituted fraction of dollar	Value of 88 items	Value of 89 items	Value of 90 items
\$.37 $\frac{1}{2}$	$\frac{3}{8}$	\$33.00	\$33.37	\$33.75
.62 $\frac{1}{2}$	$\frac{5}{8}$	55.00	55.62	56.25
.87 $\frac{1}{2}$	$\frac{7}{8}$	77.00	77.87	78.75
1.12 $\frac{1}{2}$	$\frac{9}{8}$	99.00	100.12	101.25

Some other examples that may be found with frequency are:

Price per dozen	Unit price	Substituted fraction of dollar	Value 66 items
\$ 2.00	\$.16 $\frac{2}{3}$	$\frac{1}{6}$	\$ 11.00
4.00	.33 $\frac{1}{3}$	$\frac{1}{3}$	22.00
8.00	.66 $\frac{2}{3}$	$\frac{2}{3}$	44.00
16.00	1.33 $\frac{1}{3}$	$\frac{4}{3}$	88.00
20.00	1.66 $\frac{2}{3}$	$\frac{5}{3}$	110.00

And note these very simple illustrations:

Price per dozen	Unit price	Substituted fraction of dollar	Value 28 items
\$.3.00	\$.25	$\frac{1}{4}$	\$ 7.00
6.00	.50	$\frac{1}{2}$	14.00
9.00	.75	$\frac{3}{4}$	21.00

Reciprocal Numbers

The substitution of mental division for a longer multiplication computation provides a useful illustration of the behaviour of reciprocal numbers. Here are some examples:

4848 multiplied by $\cdot 125 = \frac{1}{8}$ of 4848 or \$ 606.00
 4848 multiplied by $\cdot 375 = \frac{3}{8}$ of 4848 or 1,818.00
 4848 multiplied by $\cdot 625 = \frac{5}{8}$ of 4848 or 3,030.00
 4848 multiplied by $\cdot 875 = \frac{7}{8}$ of 4848 or 4,242.00

The relationship of units to a dozen is identical with that of months to a year. In the United States, as no doubt elsewhere, the computation of depreciation on depreciable business property and equipment is a long and tedious annual problem. Unless a newly-acquired asset has a very large cost, it is usually permissible to show the acquisition date, for the purpose of this computation, as the first day of the month nearest the date the asset is put to business use. Here are some examples of depreciation computations for part of a calendar year:

Acquisition date	Depreciable value	Annual rate	Percentage for fraction of year	Depreciation
July 1	\$10,000.00	6%	$\frac{1}{2}$ 3%	\$300.00
Sept. 1	1,800.00	12%	$\frac{1}{3}$ 4%	72.00
Oct. 1	2,000.00	10%	$\frac{1}{4}$ 2½%	50.00

In practice, many business concerns that acquire fixtures of the same general type and use throughout the year may show an average acquisi-

tion date on all the assets. On such assets with an effective rate of 10 per cent, depreciation for the first year will be computed at 5 per cent of the amount subject to depreciation as if all the items had been acquired on July 1st. The depreciable basis may be exact cost or cost less estimated salvage, depending on the kind of asset involved and the depreciation method selected.

Many American accounting offices with a heavy volume of depreciation computations try to level out their annual work load by preparing depreciation schedules in the off season for those assets owned at the last year-end. Occasionally, some of the schedules cannot be used and must be discarded because of sales or trade-ins during the year. One accountant has a very vivid recollection of a long schedule that was about to be discarded too quickly. The schedule was many pages in length. The depreciation had been computed, as usual, for a full year. The sale of all the assets had been made on August 6th. It was noticed that this was 7·2 months, exactly ·6 (six-tenths) of a twelve month year. None of the assets on the schedule were wholly depreciated before the end of the year. A quick calculation of ·6 of the total depreciation shown by the schedule that had been previously prepared, furnished the amount of depreciation to be claimed for the year. Many hours of time that might have been thrown away were saved—thanks to the ever-enchancing qualities of the timeless Arabic numerals.

Peace Upon Earth

by a member of the Accountants' Christian Fellowship

ONCE again Christmas brings a brief but welcome 'resting place' in the hectic round of modern business and professional life. A resting place – and yet our 'rest' is often as hectic as our activity, and our merrymaking sometimes so artificial that we return from it more jaded than before.

But the One who came on that first Christmas Day brought with Him a secret: something for which we search almost unconsciously, and as often fail to find. No call on His time was rejected, nor ever was refused; yet despite all the pressures of life and its claims, He was at rest – in the secret

aloneness of the soul. At rest, with the peace of God.

Not to flee from aloneness, fearing what it may reveal, but to look into its depths, and to be at peace! Such a secret is precious beyond price: just how precious, those who experience the leeching demands of business life are in a position to know only too well.

At Christmas time, do we desire to find rest where true rest is only to be found – within ourselves? The invitation and promise of Christ remains as of old – 'Come unto me . . . and ye shall find rest unto your souls'.

F. R. C.

A Christmas Carol

The first letter of each answer to the following general knowledge questions combines to form, without rearrangement, four lines from a familiar carol. Where the answer is a person's name, the surname is given first. The solution appears on another page of this issue.

1. Who was President of the United States from 1929 to 1933?
2. Of what country was Ras Tafari Makonnen proclaimed Emperor in 1930 and what title did he assume?
3. After whom is the observatory at Oxford named?
4. What is the capital city of Afghanistan?
5. On what day of the week, according to the nursery rhyme, is the child who has far to go born?
6. What is the science of the study of reptiles?
7. What is the term for a person who studies church archaeology, architecture and decoration?
8. What English novelist and poet was born in 1840 and died in 1928?
9. What is the country of origin of Copts or Coptic Sect?
10. What is the airport for Glasgow?
11. Who built a shrine at Delphi on the slopes of Mount Parnassus?
12. 'O what a marriage of beauty and brains,
When the fair — wed John Maynard Keynes'
Who was the bride?
13. Of what Biblical king was Nathan the trusted adviser?
14. What country is the challenger in the series of races for the America's Cup next September?
15. What battle fought on June 14th, 1645, virtually decided the outcome of the English Civil War?
16. What form of calendar was adopted by Scotland in 1600 and by England in 1752?
17. What is the science of 'the four last things: death, judgment, heaven and hell'?
18. Which cathedral contains Epstein's sculpture, 'Christ in Majesty'?
19. What summer resort in America gave its name to a large kind of trunk?
20. Which English county is divided into six administrative districts called 'rapes'?
21. Who was the Egyptian goddess of fertility?
22. Who designed the Marble Arch as a gateway for Buckingham Palace?
23. What Knight of the Round Table was the son of Lancelot and Elaine?
24. What was the birthplace of the giant Goliath?
25. Who was the Archbishop of Canterbury at the time of the abdication of King Edward VIII?
26. Who is the British Ambassador in Washington?
27. With what sport is the Elcho Challenge Shield associated?
28. What Gilbertian heroine wondered in her artless way why she was 'so much more attractive than anybody else in the whole world'?
29. What English novelist invented the Post Office pillar-box?
30. What noted markswoman of Buffalo Bill's Circus inspired a very successful musical play a few years ago?
31. What is the most northerly railway station in Great Britain?
32. Who satirized Oscar Wilde in a first novel entitled *The Green Carnation* which was published in 1894?
33. What Greek, born circa 342 B.C., founded a philosophy on the belief that 'pleasure is the beginning and end of the blessed life'?
34. In which English county is the bird sanctuary of Blakeney?
35. What letter, in logic, denotes a universal negative proposition?
36. What actor-dramatist this year published 'an early autobiography' called *George*?
37. What is the common word for 'coleoptera'?
38. What was the operational name for the Allied invasion of north-west Europe in 1944?
39. Who painted 'The Adoration of the Magi' which was presented this year to King's College Chapel, Cambridge?
40. What is the highest state of spiritual attainment for a Buddhist?
41. What modern scholar and writer wrote a celebrated parody of Dryden's *Absalom and Achitophel* entitled *Absolute and Abitophell*?
42. Who was the goddess of the rainbow?
43. What adjective is applied to a will made orally and not in writing?

44. Who is the patron saint of the city of Paris?
45. In what country did the Mazurka dance originate?
46. What king was born at Hampton Court Palace in 1537?
47. Who wrote the *Nicomachean Ethics*?
48. Who wrote the novel, *Breakfast at Tiffany's*, which was recently filmed?
49. Who composed the 'Cockaigne' overture?
50. What is the type of Government in which complete power is in the hands of a small number of families or a few members of a class?
51. Who wrote the hymn 'Lead Kindly Light'?
52. Which book of the Old Testament follows Proverbs?
53. What is the opposite of homoeopathy?
54. What mythological character, the son of Mars, narrowly escaped drowning with his twin brother, was reared by a she-wolf, and later founded a city to which he gave his name?
55. Who wrote:
'Sunset and evening star
And one clear call for me,
And may there be no moaning of the bar
When I put out to sea.'?
56. In which London borough is the White City Stadium?
57. Who in Bunyan's *Pilgrim's Progress* was king of Hell and angel of the bottomless pit?
58. What famous explorer devised a scheme for the repatriation of prisoners and displaced persons for the League of Nations after the First World War?
59. What solid figure in geometry is enclosed by twelve plane faces, each solid angle being formed by three regular pentagons?
60. What composer had the Christian names 'Wolfgang Amadeus Chrysostom'?
61. What name, meaning a selection, is given to Virgil's pastoral dialogues in verse?
62. What is the feminine of 'rajah'?
63. To what anti-social practice did the only man left to tell the yarn of the *Nancy Bell* owe his survival?
64. Which American university is located at New Haven, Connecticut?
65. What was the family name of Lorenzo the Magnificent?
66. What plant is dedicated to Bacchus because its leaves were supposed to be a preventive of drunkenness?
67. Who is the patron saint of the blind?
68. What English novelist had the middle names 'John Huffam'?
69. What in international law is the crime of plotting to destroy, in whole or in part, national, ethnical, racial or religious groups?
70. What card game is described in detail in Pope's *Rape of the Lock*?
71. What breed of terrier dog is named after a character in a novel by Sir Walter Scott?
72. From what fruit is the French drink 'Calvados' made?
73. What drink consists of port or sherry with hot water, sugar and spices added?
74. Who won the world's heavyweight boxing championship in 1919 and held it until 1926?
75. What was the title given in feudal Japan to a member of the military caste and now applied, more widely, to any army officer in that country?
76. By what name has the city of Constantinople been known since 1923?
77. Who wrote the famous philosophical treatise entitled *Thus Spake Zarathustra*?
78. What district in England is administered by a Court of Verderers?
79. What river flows through Carlisle on its way to the Solway Firth?
80. What term in art and architecture denotes the florid and exaggerated style of ornament favoured after the periods of Louis XIV and Louis XV?
81. What was the descriptive name given by Frederick the Great to his palace near Potsdam?
82. About what prince of Abyssinia did Dr Johnson write a philosophical romance?
83. Who was the Prioress in Chaucer's *Canterbury Tales*?
84. Who was the only British golfer to win his singles match in the Walker Cup contest this year?
85. What is the Italian form of Roland, the hero of many medieval romances?
86. Who composed the 'Merry Wives of Windsor' overture?
87. What in music is the smallest enharmonic interval, the ninth part of a tone?
88. What is the Russian form of 'John'?
89. To whom is attributed the authorship of the allegorical poem, *The Vision of Piers the Plowman*?
90. What is the annual Commemoration of founders and benefactors of Oxford University, held in June?
91. Who engraved the portrait of Shakespeare which appeared in the First Folio of the plays published in 1623?

Thoughts on our Present Discontents

by ALUN GRIER DAVIES

Taxation Controller, The Consolidated Zinc Corporation Limited.
Chairman, United Kingdom Branch, International Fiscal Association

THE great political thinker from whom I have borrowed the title of my talk has said that it was always an undertaking of some delicacy to examine the causes of public grievances. If a man failed to succeed in such an inquiry, he would be thought a mere visionary. If, however, he touched the true causes of grievance, he attacked the position of persons who had weight and consequence. They would be more exasperated at his criticisms than they would be thankful of the opportunity of reconsidering policy.

One consoles oneself with the reflection that however tortuous may have been Burke's justification for criticizing the *status quo*, it is not yet a crime in Britain to criticize the machine of government. In this matter, provided one approaches the subject with some degree of responsibility, we are all invested, in some way, with the authority of a magistrate.

Breath of Fresh Air

Perhaps one should begin by congratulating the Chancellor of the Exchequer, Mr Selwyn Lloyd, on the breath of fresh air he introduced into the last

Budget debate when he said he had arrived at the Treasury with preconceived ideas. One can only express the pious hope that the sharp criticism which the Revenue and the Treasury apply to new-fangled ideas will not have the effect of gelding him and making his future Budgets innocuous. While extending congratulations to Mr Lloyd one should at the same time extend sympathy. It has been said that he seems to be advised by tax officials who do not understand economics and by economists who despise accounting and legal difficulties and who – if I may add a layman's view – sometimes seem particularly ignorant of the facts of life.

It was interesting to see the Chancellor challenging an idea which is, perhaps, central to the entire fiscal system of the United Kingdom – the standard rate of tax deduction at source. We have grown up with this animal – perhaps the most sacred and inviolate of all the sacred cows in the tax pantheon. It is,

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supposed to have been the great contribution of Addington to the income tax system in 1803. It is almost heretical to criticize it. And yet its existence as the standard rate of tax on companies, coupled with the right of recoupment on dividends, probably accounts in large part for the great growth of the dividend-stripping industry over the past ten years. The standard rate seems to lead to much more inequity amongst companies than the two-tier profits tax ever did: what with the unequal hand-out of investment allowances and initial allowances and double tax relief, it never seems to be standard. The incidence of investment allowances on such profits as those of shipping companies must make even the Revenue wonder whether, when they repay tax which has not been paid and never will be paid, they are sacrificing common sense to the continuance of an ancient shibboleth.



Mr A. G. Davies

Crazy, Quite Crazy

The spirit of the past hangs too strongly over the Income Tax Act. It reminds one of the famous painter who took his

pupils round a public gallery and said at one point: 'Gentlemen, we are now passing the paintings of Delacroix. Raise your hats, but don't look.'

It would not be difficult to build up a pretty solid case to prove that, in the taxation world at any rate, the English are a race of lunatics! I opened a book about Japanese business ethics the other day which suggested that the Japanese had over the years built so many complications into their social and economic life that their business men need to devote most of their time and energy to unwinding those bonds which enfold them like so many mummies.

We have almost reached that stage with our fiscal system. Take our habit of calling in specialists and then ignoring their advice. In 1951 there was set up the massive organization which was to produce three Radcliffe Commission reports on the Taxation of profits and income. For several years it engaged the detailed attention – at what cost in intelligence and brains one hesitates to guess – of some of the best brains in the country. Its reports – bedevilled

in part by what are essential political differences of approach between majority and minority – have only in part been put into operation.

One of the things which the Commission recommended in 1955 was the complete overhaul of the law on penalties for incorrect returns. The law – as distinct perhaps from the exercise of Revenue discretion – was unreasonable and oppressive; and the Royal Commission in 1955 followed the Codification Committee of 1939 in recommending a review. All to no purpose. Lord Radcliffe remarked on February 18th, 1960, that ‘... the recommendation had no doubt reached the destination usually reserved for advice invited by Governments from such committees’. His remarks were made during the judgments delivered in the case of *Hinchy*. Suffice to say that the Revenue won that case in the Lords at the price of such biting criticism not only in the Courts but also in Parliament and the Press, that the Finance Bill of 1960 contained an almost complete redraft of the statutes on fiscal pains and penalties.

Good Old Tax Pillars!

There is no particular virtue in blaming the Revenue for the idiosyncracies of our system. Like the unfortunate taxpayer, Revenue officials are caught up in the toils of the system. When a Royal Commission is set up, the Revenue like the taxpayer is either required or expected to submit memoranda to it. It is inevitable that a conservatively-minded Revenue should more or less defend the *status quo*. When the Royal Commission called for evidence on the tax treatment of overseas profits, the Revenue put in a paper (Document No. 47) which said, *inter alia*, that equal treatment of all taxpayers was one of the pillars of the tax system. Good taxpayer compliance depended on there being no preferences between classes of taxpayers. When the Commission came up with various tentative schemes for giving preferential treatment for certain types of overseas income, the Revenue pulled the suggestions more or less limb from limb. The Commission then recommended, in its final report, the scheme of Overseas Trade Corporations. That recommendation, or rather the dissertation leading up to it, is one of the most extraordinary chapters in the Royal Commission report. It reads like a commentary on a tug-of-war. Eventually, after much argument, the O.T.C. idea was incorporated in the Finance Act, 1957. Since that time there has been great argument regarding what the precise recommendation of the Royal Commission might have been. Did it, or did it not, include overseas subsidiaries? Unfortunately, this particular chapter in the Royal Commission report offers great possibility to all the textual critics to bring out different theories.

The obstacle race which has to be run before any particular new relief is passed into law is well exemplified in the peculiar proceedings which have to be followed in the course of each Finance Bill.

Maybe this system is part of the checks and balances in our constitution which are so much applauded as the pillars of stability, but it is certainly effective in checking any precipitate reform. The Legislature has very little chance to introduce any amendments into the tax system which are not sponsored by the Executive. Contrariwise, any amendments put by the Executive have all the authority of the Whips behind them whatever may be the complexion of the particular Government in office.

Is it too soon to suggest that our legislative process in matters of taxation is as antiquated as the sewage systems of medieval England? It seems to me that we should have in this country some research organization which would objectively analyse the various facets of the tax system. It should be divorced from any of the existing tax committees that do such useful work at present. It should be a continuing organization – with trained researchers with a good academic background, fortified by experts with accounting and legal skills, and for good measure, an economist or two. The authority of the findings of such an organization would be such as to make it impossible for any Government to ignore its reports, or at least to ignore them any more than the reports of its own Royal Commissions. It might well be that the organization should have the same type of set-up as the Canadian Tax Foundation – a splendid example of what should be done here to examine all the major tax anomalies and to suggest remedies.

Monkish Tradition

The problem might be further examined by joint committees representing the Inland Revenue and the legal and accounting professions. I hope it is not too early to suggest that such a liaison could be a very fruitful forum for bringing tax laws up to date. That frequent sprucing-up of tax legislation is necessary I have no doubt. Otherwise it loses its validity and becomes a menace to all progress. There has always been a great devotion to duty amongst Revenue officials, as in all our State services, but I suggest that this devotion has led to what one can call without disrespect ‘a monkish tradition’ in the Inland Revenue. It is part of this tradition that no pending legislation, or even the need for it, should be discussed outside the monastery walls of Somerset House. There are signs, faint but rewarding, that this tradition may be weakening. Suggestions have been made in the House of Commons that consultation with outside experts would not necessarily be without benefit to the cogitations in Somerset House. And I have no doubt that if tax legislation was pre-digested, it would at once lower the blood pressure in the legal and accounting professions, and also lead to more peace of mind at Somerset House.

If any example were required of the urgent need for the pre-digestion of tax legislation, the Finance Bill of 1960 produced fantastic evidence of this. Even Douglas Houghton, M.P., who does not have the reputation of being horrible to Somerset House

and who, man and boy, was suckled on tax, had this to say about one clause:

'I regard this as legislation in blinkers. One day I think it will be necessary for me to run away with the mace in protest against the way in which we are asked to do business in connection with the Finance Bill. First of all, an unintelligible Finance Bill is published without a word of explanation. Then we get an explanation of the various clauses including this one. The next thing that happens is that amendments are put down in the Chancellor's name altering the clause which was originally explained, without a single word of explanation about what the Chancellor is up to. . . . I say that nine-tenths of the Committee look at this clause in more or less a state of bewilderment.'

There was a great deal of public comment and perturbation when the Finance Bill was under discussion last year. Harold Wincott, writing about it, said this:

'It is pitifully clear that the Government draftsmen and the Inland Revenue between them are about as capable of putting together a Finance Bill of this character as the average jobbing builder is of building a nuclear reactor.'

Explanations, Please

He then went on to make a suggestion about co-operation between the Inland Revenue and industry and the professions. Another thing he mentioned was the need for explanatory memoranda setting out the objectives of Finance Bills. This urgent plea was made after the Attorney-General had confessed last year that he thought he understood one of the clauses of the Finance Bill till he spoke to the Inland Revenue, then he realized he didn't! It will be easier for the proverbial camel to go through the knee of an idol than to get the present system changed.

But Australia, and the United States, and India, to give a few examples, all manage to produce excellent explanatory memoranda on their pending Finance Bills. The requests made in the House of Commons last year for such documents did not produce any results. Suffice to say that the so-called explanation of Finance Bills given by the Chancellor in his Budget speech and the second readings is not an explanation. It is an insult to the professions to suggest that it might be. All kinds of reasons are given of why the explanations can't be given - who would want the memoranda, and are they expected to understand them? Would it in any case be possible to do anything within the tight time schedule of the Finance Bill? (Why not withhold 'supply' in this case? The Commons should from time to time stand the Executive up - they are supposed to protect the taxpayer and not merely support the Government.)

There is no real answer to the refusal to supply an explanatory memorandum. It has been done abroad. It can be done here. Its publication would do an immense good and help to make sure that the passage of the Finance Bill is not the shambles it is at present.

On this question of publication, may I comment on the views of the Royal Commission on Taxation regarding the publication of reports on appeals before the Special Commissioners. Evidence was given by several witnesses before the Commission that publication of such reports would be of considerable value to practitioners. In their report the Commission quote the views of the Special Commissioners themselves, who were against publication. (It would be surprising if they were for it.) They believed that brief reports would be more likely to lead to misunderstanding and would do more harm than good. (Who asked for brief reports anyway!) As regards full reports, the Special Commissioners said that this would be a voluminous undertaking: their existence and the citation of them would prolong appeal hearings and no sufficient advantage would be likely to be gained. Have you ever heard such a smug reply to public requests for more information on one of the most esoteric subjects in this world? It is a typical example of the arrogant view that the man in Whitehall knows best. If you don't like it, you can lump it. But this view is generous compared with what the Royal Commission itself said, in a paragraph which strikes me now, as it did when it was published, as being one of the most masterly in the whole report. It deserves quotation in full:

'There is a strong *prima facie* case against a proposal to create one more series of law reports. Their citation is a fruitful source of lengthy hearings: and a set of Special Commissioners' reports would tend to introduce rigidity into a tribunal which will in our view do much better work by keeping itself flexible, subject to a reasonable consistency in its application of principles. In any event there are now thirty-four published volumes of reports of tax cases in which are enshrined statements of facts and the legal principles applied to them in all tax cases of sufficient importance to reach the High Court or beyond. We think it is an immoderate appetite for precedent that requires more than this to feed on. . . .'

Beautiful words. If they are meant to be a conclusive argument against publication, I think the reply would be short and rude. Those of you who have Special Commissioners' decisions thrown at you by Inspectors of Taxes as a regular part of your diet can reflect on that reference to 'immoderate appetite'. Much comfort may it bring you.

As a footnote let me say that in the United States, Canada and Australia, to name a few countries where one can check on this procedure of publication, the reports of comparable boards of review are regularly published and appreciated. One day, no doubt, common sense will demand such publication here. But only if a public head of steam can be maintained against the official desire to avoid publication. It was not very helpful when an official witness from the Federation of British Industries recently told the Parliamentary Committee on Estimates that he was doubtful whether it would be useful to publish

the decisions of the Special Commissioners. I cannot imagine he was being very serious.

Down with Columbus!

From time to time individuals get quite worked up about the iniquity and the inequity of our tax system. It was once said in the famous fruit machine case that the State keeps its eye of justice closed and its Revenue eye open. Lord Sands also said (in the *Granite City Steamship* case) that income tax and equity are strangers. But it seems awfully important, where the State machine is dealing with the taxpayer, that the more obvious inequities should be avoided. I refer to the doctrine of discovery, which seems to me very obnoxious. It can have quite devastating effects on the affairs of any individual taxpayer, yet it is rare to find anyone get worked up about it, till the lightning strikes quite near. So far as I know, no evidence on the subject was offered to the Royal Commission, and no recommendations were made on the subject. There must be very few countries in the world where a mere change of mind by the Revenue, after full disclosure, can reverse impartial tax decisions years after the event.

The decisions of the High Court and Court of Appeal in *Cenlon Finance Co Ltd v. Elkwood* have at last cleared a sector of the ground in the field of discovery where appeal has been lodged – and where Crown and appellant have come to an agreement under Section 510: the Revenue can no longer raise additional assessments where good faith is not in dispute within the previous six years. We are still left, however, with the situation of taxpayers for whom an appeal and the reaching of an agreement under Section 510 has not been necessary. The Sword of Damocles is still poised over their heads. The need for a strict definition of the word 'discovery' has not been removed; the Revenue in those circumstances can still raise an additional assessment on a change of opinion by the inspector. This threat should be removed by legislation providing that where the taxpayer has made a full disclosure and an assessment has been made, there should be no amending assessment to increase liability.

Through a Glass, Darkly

There is another area of tax practice where we appear to have got into an Alice in Wonderland position – that of the taxation of overseas income. The empirical approach which is so much preferred in this country has landed us in a maze that has all of us worried to some extent. Those who have to deal with the normal problems of overseas income and the relief to be attributable to it, are perhaps too busy to realize the extreme craziness of the present situation. It sometimes seems to me that it would be a practical idea to cut out all the manifold complications of overseas taxation and relief and merely tax ex-United Kingdom income and profits at a percentage of the rate attributable to profits and

income out of United Kingdom sources. The Belgians seem to apply such a system with a minimum of work and complication. But we in the United Kingdom are so obsessed with the idea that every calculation must be right and that the answer must be exact, that we completely overlook the figure we first thought of. This is not an attempt to be funny, but merely to suggest that we erect fantastic structures of calculations on a source figure which by any common sense assumption is quite wrong. I refer to the way, for instance, in which the *I.C.I. v. Caro* case was decided. In that case no layman would ever have suggested that you can take one year's figures as the basis for two years' assessments. In fact, outside this country, the idea is quite inconceivable. Even the judges who adjudicated on that case could not help remarking that the basis seemed quite crazy, even though they had to apply a very clear statute, or at least what appears to be a very clear statute, till you look into the case.

There is prima facie evidence that the most important part of the *I.C.I. v. Caro* case was never reported. I refer to the hearing before Mr Justice Harman, which is touched on briefly in the judgments, and which, so far as one can judge, was terminated by an arrangement between the taxpayer and the Revenue, merely because Mr Justice Harman suggested that perhaps the whole basis of allowance of double tax reliefs as at present practised, was wholly devoid of statutory foundation.

It may be useful to comment, in passing, on Section 18 of the Finance Act, 1961, which was passed to rectify the anomaly in the *I.C.I. v. Caro* case. The Royal Commission had already considered the particular anomaly and had recommended the adoption of the current year basis generally; if this broad objective could not be reached the case for remedial provisions was a very strong one since the loss of double tax relief was inconsistent with the avowed object of tax credit relief.

The way the section deals with the anomaly is to expand the double tax relief artificially to match the artificiality of the United Kingdom assessments. But there is a snag. On cessation of a source, a Case VI assessment is raised to cover tax on the excess of the double tax relief given over the relief which would have been given but for Section 18 plus the overseas tax on the profits which fall out of assessment. It would be churlish not to concede that half a loaf is better than no bread, but the old inequity is still there. The taxpayer with falling profits will still, over the life of the source, be assessed on amounts in excess of the actual income. The section is a classic example of the scripted statement that 'to him that hath shall be given and from him that hath not shall be taken away even what he hath'. The only satisfactory answer is the current year basis: the argument against it will not stand up.

I hope we may one day be spared all the convolutions of double tax relief. I am sure that by and large there would be no material loss of tax if all

overseas income were taxed at a low arbitrary rate, ignoring all overseas tax entirely. At present there are signs, small ones, but good signs, that the Revenue is very conscious of the fact that in the overseas tax field the complications have overwhelmed their inventors. I can only hope that the solution suggested will not be the withdrawal of all indirect relief to individuals.

The Grossness of the U.K. Tax Claim

I sometimes wonder whether a large part of the problem in the taxation of overseas income does not arise because the tax frontier, so far as the United Kingdom tax claim is founded, is not too widely staked. We are so embedded in the philosophy that residence must determine liability that we cannot objectively see the advantages or even the legitimacy of the alternative basis of territoriality. We become so obsessed with the effect of graduation and the political and social insistence that everyone should be on the same basis, that we overlook the fact that the fairness of the present basis is more apparent than real. There is no real equivalence in practice between the assessment of overseas and United Kingdom sources, but we refuse to accept the implications of this thought.

The United Kingdom claim to tax all overseas income of residents has run into political trouble in recent years because of the emergence of many States to independence, who resent the United Kingdom claim as smacking of fiscal colonialism. Rightly or wrongly, the emerging States have set up tax inducements and incentives to attract foreign capital, to a degree which embarrasses the United Kingdom tax claim. It is no use saying that some of these inducements resemble gift coupons on a packet of detergent. What has happened in fact is that in order to attract capital, the developing countries have withdrawn their tax frontier, but their withdrawal is offset by the fact that the United Kingdom tax claim on residents means that the United Kingdom tax frontier is automatically advanced, so that the beneficiary of overseas tax concessions is the Treasury, not the United Kingdom resident. This has undoubtedly proved politically embarrassing to the United Kingdom, especially in relation to dependent territories and the newly independent nations within the Commonwealth. How else can one understand the complete reversal of the United Kingdom attitude as set out in Section 17 of the Finance Act, 1961, where the United Kingdom Government took enabling powers to re-negotiate double tax treaties so that 'notional tax credits' could be allowed in respect of tax spared by overseas Governments under 'pioneer industry reliefs' set up for industrial, commercial and similar developments overseas.

What is interesting is that the change in policy represented by Section 17 proved to be incompatible with the existing pattern of double tax relief legislation in the Sixteenth Schedule of the Income Tax Act, 1952. It will be recalled that each overseas

dividend requires to be grossed up where the underlying tax is to be the subject of double tax relief, but this has the most unfortunate and illogical consequences where the income in question has only been deemed to be taxed. The logic of this situation only became obvious to the Chancellor half-way through this year's Finance Bill, and the proviso which cuts out the grossing-up procedure only appeared half-way through the committee stage.

Unfortunately, the Chancellor's remedy only goes part way because of the requirement of Section 185 that all United Kingdom dividends be treated as net. At present, the effect of Section 17 is very different, depending on whether the source is a direct holding in a company controlled and managed overseas, or a shareholding in a United Kingdom company which has itself received overseas income. It is to be hoped that this anomaly will be put right next year, otherwise the purpose of the enabling legislation will be partly frustrated.

And Know All the Mysteries

I would not like it to be thought that I am making criticisms that are not legitimate, but there are some things I wish to say about the administration of our tax affairs. We have moved a long way from the simple poll-taxes which started off this tax business, and as the tax system has become more complex it is inevitable that a large part of it becomes delegated legislation, either specifically by statutory rules and regulations or as a matter of practice. As an illustration of the latter development, take the question of the tax law in relation to pension and superannuation funds. I defy anyone who has not made a lifetime study of it to say exactly what the law represents in terms of present-day practice. One finds time after time that in dealing with pension funds or schemes that even to the experts, whether inside or outside Somerset House, there are large areas of administration where the practice is just something that grewed, like Topsy. This is perhaps inevitable in an area of tax law where discretion is allowed to the Inland Revenue as to what is allowable or not allowable. Yet one could quote ruling after ruling where the reasoning seems remote from the statute.

Precedent has broadened to precedent, and a vast corpus of administrative law has developed. I do not say it is necessarily an unfair administration, but a great deal of it is done by fiat. I don't know how much of it has the *imprimatur* of the Board, and how much is based on the deliberations within the Chief Inspectors Branch. All I can say, as a fool in these matters, is that when decisions emerge on pension funds, they seem to be unappealable. Whether they are or not, I have never heard of any material point being challenged before the Courts. Is this perhaps a sign that equity is being done in all cases? I cannot really think so.

There cannot be anyone here who has not at one time or another had cause to wonder what the law on pension funds might be. And yet there is no

branch of tax law or administration which is more cloaked in mystery, though the tax consequences of decisions in this field are as important as any I know. It may be a very cosy way of running pension fund problems – to submit matters for ruling at Somerset House – but I cannot believe that the long-term effects of this system are going to be good. I would like to see at some stage a clarification of the taxpayer's position and to have more of the rulings appealable directly to the Courts.

Knowledge of Law Useful

I want to emphasize the Courts because in recent years I have become less and less certain about the main features in the tax landscape. Fifteen years ago I felt reasonably certain about many of the landmarks and boundaries in tax matters. But many of them have proved to be nothing of the kind. The only consolation I have is that my mirages are apparently shared by the Revenue. I think of the long line of cases over the last few years where the Revenue view has been tossed, or where defended, became the subject of such hostile comment that a Court win has proved to be a pyrrhic victory.

I think of cases like *Duple Motor Bodies*, where the taxpayer won his case, and where the Revenue view on the relevance of oncost got pretty sharp comment all along the line. Or *I.C.I. v. Caro*, where the Revenue won, but only by agreement with the taxpayer to avoid the whole argument on double tax relief being shaken up. Or *Hochstrasser v. Mayes*, where the Revenue tried without success to tax payments out of an employer's housing scheme set up by I.C.I.

So Many Kinds of Voices

More and more the practice of tax advising partakes of the nature of an ineffable mystery. On the one hand, the complexity of the law and the possible incidence of tax makes it absolutely vital to try to make a firm assessment of the tax results of a transaction in advance of its consummation. Where the law itself is vague and insubstantial, the lawyers may duck the argument and suggest that in the last analysis an Inland Revenue ruling is all that will give certainty. This view was expressed by Mr Hart Spiegel, former Chief Counsellor of the United States Internal Revenue, as follows:

'Rates are too high and the amounts are too substantial to expect taxpayers engaged in legitimate business to play Russian roulette with the tax consequences. . . . The United States Service is issuing over 30,000 rulings a year in advance of the consummation of a transaction.'

This may be the natural consequence of the complications and vaguenesses of tax law. I cannot think it is a healthy sign. And the many vague features of the 1960 Finance Act make me wonder whether the Revenue itself can be very happy with the kind of rulings they will be asked for in respect of some of the sections in that Act. This Act sets out in several

ways to indicate *deliberately* new areas of doubt – a sort of invisible electric fence – and I cannot think this is a very healthy development. It will mean, in fact, that the race will go to the bold, and that like the Kingdom of God in the scriptures, the violent will take it by force.

There is the other point of view, which is much more earthy and appealing to the average man. It was expressed by Mr Hart Spiegel in the following words:

'I think that the administrative authorities must do all they can to keep ideas of what is taxable within the layman's view of taxable income. This may lead to lack of symmetry or patent inconsistencies, but this is better than a policy which will result in mass disregard of and mass non-compliance with whatever the official view may be. . . .'

It may be that this is a nostalgic view which is too simple and too remote from the complexities of modern life. But make no mistake about it, the neglect of this view has taken us a long way towards mass disregard of what is right and proper. We may like to sweep things like this under the carpet, but one gets the impression generally that tax compliance in this country is approximating far more to that appertaining in France and Italy, than was the case a quarter of a century ago.

I have wandered a great deal in this talk – from criticism of the tax machine to criticism of the antiquated ideas that it has inherited. When I hear the system defended by Ministers (who after all have to put up some kind of annual defence if only to get the Finance Bill through) I am reminded of the way in which we in this country can become so sanctimonious – that everything is so nearly perfect in the best of all possible worlds. I am reminded of George Orwell's summary of this type of mental world:

'The king is on his throne and the pound is worth a pound. Over in Europe the comic foreigners are jabbering and gesticulating, but the grim grey battleships of the British Fleet are steaming up the Channel and at the outposts of Empire the monocolled Englishmen are holding the niggers at bay.'

That world, if it ever existed, has disappeared. We are poised awkwardly on the edge of the Common Market. How much of our wonderful tax system will be left in twenty years when the harmonization of fiscal policies under the Treaty of Rome has been fully worked out? Not too much, I hope.

In these few remarks of mine I may, of course, have read the signs of the times quite wrongly. I am reminded of the story of a Welsh nurse in Peking who saw some beautiful Chinese calligraphy which looked very poetic. She worked the design into a sweater which she wore very proudly till one day she was stopped in the street by a Chinese doctor who told her the English meaning of the words which looked so lovely. It was 'This dish is cheap, but delicious'. I hope my own interpretation of the writing on the wall is not as wide of the mark as hers.

.. Weekly Notes

Tax Simplification

TWO memoranda, the contents of which were published this week, have been submitted to the Chancellor of the Exchequer with strong pleas for the simplification of the system of direct taxation in the United Kingdom, in particular, the taxes on income. The bodies submitting these memoranda both have members having close professional relations with the Inland Revenue and their opinions are in consequence deserving of the Chancellor's serious consideration; they are The Association of Certified and Corporate Accountants and The Institute of Taxation.

The Association's recommendations fall into two categories; the first, for a new and simplified tax scheme, are summarized as follows:

- (a) abolition of the 'standard rate' concept and the substitution of a withholding rate for the sole purpose of deductions from annual payments;
- (b) abolition of 'assessment' years in favour of years of income;
- (c) a single graduated scale of rates on individuals' total incomes;
- (d) a single 'corporation rate' on corporate bodies;
- (e) self-assessment by the taxpayer.

It is admitted that a new scheme would take some time to implement; meanwhile, however, the existing scheme could be improved without delay. To this end the Association suggests:

- (a) abolition of Schedules A and B;
- (b) amendment of the Schedule E expenses rule;
- (c) amendment of surtax direction legislation;
- (d) depreciation allowance for commercial buildings;
- (e) marginal child relief where the child's income slightly exceeds the statutory maximum;
- (f) abolition of the legislation on motor-cars costing upwards of £2,000;
- (g) annual Finance Acts to be confined to changes in rates of tax;
- (h) repeal of mineral rights duty.

The Association also recommends the setting up of an independent body to review the estate duty legislation. It suggests duties on individual legacies at graduated but more moderate rates, arguing that the present estate duty rates are penal.

The Association's memorandum is its usual pre-Budget contribution to the Chancellor. That of The Institute of Taxation does not refer to the coming Budget and is devoted solely to the subject of simplification of the taxes on income. The memorandum makes a strong case for full-blooded unification of surtax and income tax. By the same token it argues that companies should not be called upon to pay both

income tax and profits tax; the distinction has no basis in logic. The proposed changes would also bring an end to the surtax direction legislation.

Another strong case in the memorandum is that for abolishing artificial basis periods of assessment and substituting the 'actual year' basis in all cases, with *ad hoc* provisions for hardship in the transitional period. Schedule A and Schedule B would be replaced by including actual rents in the tax field and abandoning the tax on beneficial occupation. Indeed, there would be no room for the schedular classification of income at all. Support is given to the argument that Inspectors of Taxes should make all assessments; Commissioners being retained for appellate functions only.

Detailed Audit Reports

FOLLOWING upon Sir Donald Perrott's comments to the members of the Institute's summer course at Cambridge on what the business man expects of the practising professional accountant, comes a pamphlet from America on what directors should expect of an audit. This engaging little exhortation, complete with apt and amusing thumbnail illustrations, has been published by the Omaha Bank for Co-operatives and is based, the foreword states, upon many years of experience in using audit reports as a guide in extending credit. The term 'audit report' refers, of course, to the long-form report which is, or should be, a fairly comprehensive survey of the company's trading and financial position and not the 'short-form' which corresponds to the brief blessing which auditors in the United Kingdom give in accordance with the 1948 Companies Act and which confines itself to saying, in effect, that legally all is well – if, indeed, all is well.

The pamphlet lists the basic minimum data which the long-form report should contain and this seems to approximate to the *quantum* of confidential information which an investigating accountant in the United Kingdom would give to a client as prospective purchaser of another company – namely, full details of its financial structure, trading activities and result, the main difference being that whereas an auditor reports year by year, the investigating accountant would cover five or ten years in one survey.

The optional long-form audit report, as a supplementary to the official statutory report, has gone out of fashion in the United Kingdom, partly because many companies can produce up-to-date trading and financial information for themselves and the audit, in consequence, has been relegated to the historical. For directors of smaller companies who may not have these domestic facilities, however, and who can rely on their auditors promptly to produce the financial accounts, the uses of such a regular survey as outlined in this pamphlet, might have distinct advantages. The auditor, in any case, should have accumulated the bulk of the information for it in his working papers during the course of his audit.

A Diagnosis of Directors

INTENT upon assessing the occupational hazards of executive life, the Institute of Directors, through its medical research unit, sent out questionnaires in 1958 to one-sixth of its members. The response – about 60 per cent on the random sample – was sufficiently representative and reliable to use as a statistical basis for the findings now published in booklet form by the Institute.¹

The survey discloses that 37 per cent of male directors are in the 45–54 age group. On either side are 20 per cent between 35 and 44 and 28 per cent between 55 and 64. At the extremities are 6 per cent under 35 and 9 per cent of 65 and over. The age distribution of women directors follows a similar pattern. More than one-third of the women are directors of companies with an issued capital of less than £20,000. Only 6 per cent are on the boards of companies with an issued capital of upwards of £500,000. The corresponding percentages of male directors in these groups are 15 and 27. Exactly one-third of the women became directors through family or marriage connections; 52 per cent through being associated with the start of a new business and 25 per cent by means of promotion from the staff.

Asked – ‘Do you depend on experience alone, or do you have a recognized university degree?’ (a question which, as *Punch* would say, might have been better expressed), two-thirds of both male and female directors say that they depend on experience alone. Of the types of qualification held by the men, engineering (14 per cent) and accountancy (10 per cent) are the most common. No other group musters more than 3 per cent. Of the practical duties undertaken, 67 per cent of members describe their work as being ‘predominantly that of general manager’, 23 per cent as sales, 17 per cent as finance, 12 per cent as production, 9 per cent as personnel, 8 per cent as accountancy and 4 per cent as research, a result which suggests that the membership of the Institute includes more than one Pooh-Bah. It is noted that while sales seem to be the prerogative of the young, accounting and finance is ‘more the sphere of the elderly’.

More than half the booklet is devoted to how directors get to work, when they arrive, how long they stay (including overtime), their wining and dining predilections, the holidays they take and (at some length) their health. The overall picture evolved is that directors work long hours, spend a disproportionate amount of time getting to business, often take shorter holidays than their staff, are much more abstemious than they are ignorantly represented to be and, partly because of lack of personal leisure and time to think alone, are particularly prone to all the ills, mental and physical, which the wear and tear of contemporary business life foster.

¹ *Who's on the Board?* (Institute of Directors, London. 3s net.)

Customs and Excise Report

THE report of the Commissioners of Customs and Excise for the year ended March 31st, 1961, (Cmd. 1566, H.M.S.O., 12s 6d) was published last week-end. A significant feature of it are the paragraphs under the heading ‘International co-operation’. The year saw the introduction of the first tariff reductions under the Convention establishing the European Free Trade Association (E.F.T.A.). From July 1st, 1960, the duties chargeable under the Import Duties Act, 1958, on certain goods grown, produced or manufactured in, and consigned from, the Convention area were reduced by one-fifth. The area comprises Austria, Denmark, United Kingdom, Isle of Man, Channel Islands, Liechtenstein, Norway, Portugal, Sweden and Switzerland. The report mentions various international meetings directed to improving administrative co-operation on customs matters.

Pride of place among the indirect taxes still goes to tobacco which, despite an estimated fall in consumption of some £2 million, produced over £825 million, more than £36 million over last year. The fall in consumption, like the increased yield, reflects the increased rates of tax imposed as from April 5th, 1960. Purchase tax rose from £501 million to £510 million, there being a similar increase in the receipts of purchase tax on motor-cars. The reduction in duty on wines in April 1960 resulted in a fall of only £2½ million in the receipts, consumption having risen considerably.

L.C.C. v. F.C.A.

MR ANCRUM FRANCIS EVANS, F.C.A., of Eccleston Square, London SW, has already achieved prominence as a doughty champion of the rights of electors against the local authorities whom they elect. On December 13th and 14th, the Divisional Court gave judgments in two appeals in which he was concerned with the London County Council, in the names of two of their permanent officials. In the first case, *Wilson v. Evans*, as reported in *The Times*, of December 14th, he was unsuccessful, but he equalized in the second, *Evans v. Lloyd*, *The Times*, December 15th.

The first decision established that local authorities can, with impunity, deprive their electors of the right to see minutes of proceedings which Section 173 of the Local Government Act, 1939, presumably intended they might see if they so wished. Following L.C.C. refusal of planning permission concerning the use of part of his residence for professional purposes, Mr Evans appealed and sought to inspect the minutes of the Council's town planning committee concerning his application. On Mr Wilson (the official having custody) refusing this request, Mr Evans secured a conviction against him under Section 173 (7). The Divisional Court has now allowed Mr Wilson's appeal on the ground that

minutes of a committee to which the Council's functions have been delegated are not minutes of the proceedings of the Council within the meaning of Section 173. Giving judgment, Lord Parker said that on first approach Mr Evans's argument was in accordance with general principles and common sense; it would be surprising if, by delegating its authority the L.C.C. could defeat the electors' right to inspect. However, reading the Act as a whole, the Court had come to the conclusion that it meant that minutes of a committee were not minutes of the Council within the meaning of Section 173.

In the second case, Mr Evans had asked Mr Lloyd to let him inspect all orders for the payment of money in the year ended March 31st, 1960. Mr Lloyd had merely produced the orders for payment out of the general account of the county fund into the general payments account of that fund, and the individual orders were for round sums like £16 million. He had refused to produce any other orders, on the ground that Mr Evans must specify the individual orders he wanted to see. When Mr Evans prosecuted Mr Lloyd, the magistrate dismissed the summons without hearing Mr Lloyd's defence. The Divisional Court has now held that Section 173 (3) of the Act is not confined to specific documents. The case must go back to the magistrate to be heard and determined, so as to find whether Mr Lloyd was guilty of obstruction within the meaning of Section 173 (3).

The Profession Libelled Again

MEMBERS of the profession who are concerned about the sort of image presented to the public of a properly qualified accountant will have been justifiably incensed by the showing on Independent Television last Sunday evening of that professionally infamous feature *A Tune on the Old Tax Fiddle*.

This was the 'Professional Portrait', it will be remembered, which when broadcast by the B.B.C. on October 30th, 1960, drew a protest from the President of the Institute to the Chairman of the Governors. The B.B.C. subsequently expressed regret for the unfortunate broadcast and allowed the Institute the fifteen-minute discussion which took place in the Home Service on December 4th, 1960, between a B.B.C. interviewer and two members of the Council.

Those who thought that was a reasonably satisfactory closure of a regrettable episode will have been dismayed by the visual presentation at a peak viewing hour of this utterly false impression of a practising accountant at work. It is true, no doubt, that this was intended as entertainment; but the distinction made between a properly qualified accountant and the other sort, can be said to have given the whole thing an air of authenticity in the eyes of the average viewer. Indeed, the 'other sort' of accountant, though he only emerged by reference, may well have had the better reception. At least he apparently did what was required of him on the infor-

mation supplied by the client. Whereas the picture of the so-called 'qualified' accountant, by his insistence on a down payment of fee before agreeing to accept the assignment, by his improper suggestions to the client designed to hoodwink the inspector, and by his completely ineffectual behaviour at the interviews with the Revenue, was the grossest travesty imaginable.

Nor, one would assume, can the Revenue be very happy with the vindictive impression created in the public eye of an inspector of taxes.

E.E.C. and Agriculture

TOWARDS the end of last week Dr Mansholt, vice-president of the E.E.C. Commission in charge of agriculture, made some favourable references to British agriculture in relation to the European Common Market in an address which he gave to the Assembly of Western European Union. He said that he did not think the structure of British agriculture would require any particularly serious changes in order to integrate itself with the E.E.C. He thought that the structure of British and Danish agriculture was sound while in the case of the member-companies of the E.E.C. their structure was impaired by having too many farmers and too many small farms.

Dr Mansholt listed a number of concessions which he was prepared to make to meet British requirements. These were as follows. First, the adoption in principle of an annual price review; second, the institution of marketing boards on the British model; third, direct subsidies to make easier the disappearance of uneconomic small farms; four, bulk buying contracts of limited duration between the E.E.C. and groups of leading exporters of temperate zone products; five, long-term contracts on a world-wide basis for tropical products. Finally, Britain may consider giving subsidies to horticultural products. He warned E.E.C. countries that the advent of the United Kingdom into the Common Market would not open up large markets for agricultural produce, unless they thought that Britain would stop entirely its privileged treatment of Commonwealth agricultural imports.

This has been tactically a key speech but it is not easy to assess its effect. On the one hand it is encouraging that an influential permanent official at E.E.C. (and the permanent officials of that body are exceedingly powerful) has made encouraging noises about the integration of British agriculture into Continental Western Europe. On the other hand, it may be wondered whether he has helped particularly to reconcile the interests of the six existing member-countries of E.E.C. who are already somewhat bogged down in an effort to apply the terms of the Treaty of Rome to agriculture. There will not be much gained if every tactical move which makes reconciliation of the interests of British agriculture with those countries in the Common Market easier means that what is gained on the roundabouts is lost on the swings.

This is My Life . . .

by An Industrious Accountant

CHAPTER 103

THE last working day before the longish Christmas holiday is invariably hectic for the accounts staff of a concern such as ours. The frantic rush of last-minute shoppers is rendered more trying by the fact that the departmental assistants are harassed by their own personal purchasing problems. In our big debtors' ledger section, high above the bustle, the tension mounts to fever-pitch by lunch-time. We are trying to get the maximum cash-lodgment made up and unloaded on the equally-harried bank-teller; our clerks are besieged by rush inquiries from the sales floors about credit ratings ('Mrs Smith is buying a musquash coat, value £180; she wants to charge it. Is the account good?' We have, in fact, already heard that the said lady has bought extensively in other departments).

Meanwhile, staff going on leave are cajoling the wages section for pay advances and the cashier for I.O.U.s. The managing director telephones urgent inquiries about two plane tickets for Geneva in an hour's time. The lift jams in the shaft and there is a rumour of a lightning strike in the dispatch section.

Then quite suddenly, at 3 p.m., the tempo relaxes. Sales are cash only, as our depleted staff won't answer credit inquiries till the day's dockets are posted; all our distant commuters have got the afternoon off for travelling. My private secretary, flying home to Ireland for the week-end, says her good-byes briskly; at the door she is accosted effusively by Scotty, our sales manager, in uproarious form, with 'Begorrah and bejapers, little colleen, and the top of the morning'; she responds with an artless reference to 'gaeing through too much rye, d'ye ken the noo'. He produces a bottle with a flourish, for a wee deoch-an-dorais afore he's awa' ower the Border. Just then our Welsh construction engineer enters to say best wishes. He, too, accepts an enormous dram before setting off westwards to Merioneth for his own wassail. 'There is pleased I am', he says, breaking tunelessly into 'Men of Harlech', Scotty endeavouring to accompany him, misguidedly to my mind, with 'Loch Lomond'.

Before long, everyone left in the office is touring round exchanging greetings, with warm and prolonged handshaking. In the typists' room gaily-decorated parcels are being exchanged; a sudden congratulatory outburst of joy from a cluster of curly heads indicates that extra-special news is being imparted. A transistor set (normally prohibited) is quietly melodious, but I pretend not to hear it.

Our plump departmental accountant is tidying his papers. His movements are laboured, his face flushed and happy. He beams widely and tells me a new limerick which undoubtedly would be funny if he could remember the last line. Answering the telephone, he knocks over his pile of brown paper parcels, to his intense indignation, so I slip out quietly. . . .

The balance is redressed by our office manager when I meet him. He has just finalized the annual roll of gifts and bonuses for the charwomen and sweepers, for the canteen girls and the postman, for the window-cleaners and the newsboys. He has sent greetings cards, each with its appropriate message, to members of the staff who left during the year; he has organized hampers and presents for the local charities; he is tired but cheerful. I usually see him as a rather fussy old bachelor; I suddenly realize that it is men like him who make Christmas mean something, whose efforts truly help those in need. In a spasm of contrition, I agree to appear as Santa Claus, bearded, booted and be-sacked, at his orphanage party on Sunday.

In the same mood, I decide to drop in on our deputy-chairman. Somehow, we never seem to have hit it off together since I came here. A naturally overbearing and class-conscious type, he likes yes-men around him; furthermore, he tends to regard accountants as non-productive parasites and has been known to say as much. Still, he seems basically a straightforward character, devoid of duplicity, and really I rather like him. Besides, he is reputed to have serious trouble at home - his wife being rather difficult and so on - which doesn't help a man to be at his best, so allowances must be made.

To my surprise he reacts extremely cordially, and actually presents me with a handsome morocco desk-pad; we stroll out on good terms for the first time. By now the offices are deserted, except for the typists' room, where the transistor set, now at full strength, is blaring: 'In the gloaming, O my darling.' Around it crowd our younger fry - typists, clerks, assistants - with arms linked, swaying, laughing, roaring the chorus lustily. They are enjoying the last carefree minutes of the afternoon, their voices ring young and gay:

'... will you think of one who loved you,
loved you dearly, long ago?'

The deputy-chairman was standing still, his expression no longer truculent; he seemed curiously bewildered. 'These kids', he said helplessly, 'they don't realize . . . that's a sad song . . . the saddest song of all.' He turned on his heel and strode heavily down the dark corridor; in the noisy, laughing, room someone was waving mistletoe.

Going home with my load of parcels, looking back on the day, I seemed to see a lot of people in a new light.

Finance and Commerce

Building Society Financing

SOME valuable 'thoughts' on the subject of building society finance are provided with the accounts of the City of London Building Society which form the subject of this week's reprint – the ninety-ninth annual report and accounts, in fact. The chairman of this society is Mr G. R. Appleyard, F.C.A., and his deputy is Mr F. A. B. Braithwaite, M.A., a member of the London Stock Exchange. Other directors include members of the legal and the surveying professions, and Mr A. G. C. Trollope, M.A., who, in a review entitled 'Looking Ahead', points the way building society evolution may well take in the future.

The building society movement with its £3,000 million of assets is financed in a way that might well make the financial purists shudder. Basically, it is 'borrowing short' and 'lending long' – the anathema of bankers and all who take in capital and lend it out.

Mr Trollope prefaces his recommendations with the following comment: "The anomalous position of having the whole of the capital withdrawable against assets, which are not quickly realizable at all, for the most part ought to be corrected."

Recommendations

His first recommendation is that there should be paid-up share capital which can only be repaid at the option of the society on notice given by the shareholder. This capital would attract the highest dividend and could represent up to 25 per cent of the total capital at any balance sheet date.

The next relates to withdrawable share capital, and is to the effect that the terms under which it could be withdrawn should be set out in the rules.

Mr Trollope's third recommendation is probably the most far-reaching and concerns marketable debentures. These debentures, it is suggested, would have to obtain a market quotation, and terms for repayment date, price of issue, coupon rate would be fixed at the time of issue. They would normally be issued at par or at a discount, the standing of the society being a factor in determining the issue price. This form of capital could represent up to 25 per cent of the total capital at a balance sheet date.

Deposits, he says, would remain, societies still having powers to take money on deposit within statutory limits.

'We have been told', observes Mr Trollope, 'that Parliament will be asked to enact a codifying statute

within the next few years.' Such legislation, he says, would cause the repeal of the Building Societies Act of 1939, which he describes as a 'hotch-potch of regulations, some of which are difficult to interpret, and others out of date'.

Interest Rates

As events have moved, especially since the last war, building society capital has tended to float in and out under the influence of the interest rates obtainable elsewhere. Hire-purchase finance has been one of the big attractions, as witness the rates being offered by the H.-P. finance houses. Mr Trollope draws attention to the high yields in the region of 7 per cent available on debentures and other fixed interest securities of first-class standing.

His society raised its share dividend to 4 per cent (income tax paid) from April 1st last and the rate of interest on personal deposits to 3½ per cent (income tax paid) from October 1st, and he considers the net receipts of capital have, under the circumstances, been 'satisfactory'. Careful husbanding of liquid resources in the past has enabled a further expansion of new advances but, he says, 'in view of the Government's special measures initiated in July last, we have modified our plans for new advances for at any rate the opening months of the next financial year'.

This society has for many years based its lending rate on the market as expressed by the yield on one of the gilt-edged Government irredeemable stocks, the calculation being made monthly.

Looking Ahead

Mr Trollope observes that with this lending-rate formula now established for some years, there can be no going back on the policy if the confidence of investors and of those who recommend investment with the society is to be retained and strengthened. 'There is really no real justification for those who take up a mortgage with a building society, he says, 'to expect to receive special treatment in respect of contract interest which is manifestly lower than the market will bear'.

The important point for the medium- and long-term future, he continues, 'is whether the Government's "pause" is in reality to be a "showdown". If it is only a "pause", it is then arguable that the interest rates structure of building societies will have to be moved up on to higher levels still.' He maintains that no society in the long run can effectively preserve a position of isolation from the trend of the value of money.

'The world shortage of capital and excessive Government expenditure bringing inflation with it', says Mr Trollope, 'have brought home to these societies nearest to the centre of the financial world the necessity for paying something extra in the dividend on a money investment to compensate for lack of protection against a fall in the purchasing value of that money investment.'

BALANCE SHEET as at 30th September, 1961

[illegible]

AUDITORS' REPORT to the members of The City of London Building Society

The foregoing Balance Sheet and Revenue and Appropriation Account are properly drawn up in accordance with the requirements of the Building Societies Act, 1960 and the regulations made thereunder. In our opinion they give respectively a true and fair view of the state of the Society's affairs on 30th September, 1961 and of its Income and Expenditure for the financial year ended on that date.

D. R. BEDFORD SMITH, F.C.A.
2nd November, 1961.

D. R. BEDFORD SMITH, F.C.A.

E. J. R. MAY, F.C.A.

(TANSLEY WITT & CO.)

28/24 ELY PLACE, LONDON, E.C.1.

THE CITY OF LONDON BUILDING SOCIETY

REVENUE AND APPROPRIATION ACCOUNT for the year ended 30th September, 1961

EXPENDITURE		INCOME	
1960 £	£	1960 £	£
Management Expenses:—		Interest on Mortgages	
3,600 Directors' Fees	3,100	405,846	45,4819
19,539 Remuneration of Staff and Auditors	21,223	45,582 Interest from Investments (gross)	50,745
3,138 Office Accommodation and Expenses	3,192	11,802 Discount on Treasury Bills	610
2,603 Printing, Stationery, Postages and Telephones	2,962	2,772 Bank Interest	1,306
3,198 Advertising	3,554	1,167 Rent from Lettings (net)	1,098
1,202 Commission	960	8,460 Valuation Fees and Expenses	9,966
1,327 Travelling and other Staff Expenses	1,534	53 Other Fees, Rules, etc.	61
1,004 Solicitors and other Legal Costs	1,005	2,930 Commission	3,686
— Consultants' Fees	780	2,573 Interest on Tax Reserve Certificates	3,656
706 Sundry Expenses	642	204 Interest on Income Tax Post-War Credits	209
36,317 Total Management Expenses	38,952		
— Bank Charges	532		
3,452 Valuation Fees payable to Directors	—		
5,008 Other Valuation Fees and Expenses	9,699		
35,672 Interest on Deposits	33,359		
817 Amount written off Office Equipment	691		
500 Mortgage Debt Cancelled	—		
126,031 Income Tax for 1961/62 Assessment (see Note)	136,876		
7,058 Profits Tax for the year ended 30th September 1961	8,786		
237,690 Dividend to Shareholders for year ended 30th September 1961	262,411		
28,844 Balance carried down	34,850		
£481,389	£526,156		£526,156
Additional Taxation Liabilities in respect of previous years:—			
4,649 Income Tax	—	94,636 Balance brought forward from last year	128,690
930 Profits Tax	—	28,844 Balance brought down	34,850
103 Appropriation to Mortgage Losses Provision Account	—	723 Profit on realisation of Investments	2,197
— Transfer to General Reserve	50,000	— Overprovision for Taxation in respect of previous years:—	£1,956
128,690 Balance carried forward	118,206	— Income Tax	—
		— Profits Tax	513
		128 Further surplus arising on transfer of engagements by the former South	2,469
		357 Norwood Permanent Building Society (Income Tax)	—
		7,854 Discount on Mortgages transferred from the Properties Investment Trust Ltd.	—
		Income Tax Post-War Credits now brought in	—
		290 Income Tax Post-War Credits now brought in relating to Societies which	—
		1,540 have transferred engagements to this Society	—
		Repairs and Maintenance Provision Account now written back	—
		£134,372	£169,206

Note.—Pursuant to Statutory arrangement the Society's assessment is based on the accounts of the current year.

CITY NOTES

THE Imperial Chemical Industries-Courtaulds merger overshadowed all else in the City this week. This massive operation has pointed to the competitive problems arising from Britain's possible entry into the European Common Market.

Both I.C.I. and Courtaulds have this year shown sharp reaction in profits and Courtaulds have had to reduce the interim dividend. The most potent point in the I.C.I.-Courtaulds merger is the assumption that duplication of effort in the man-made fibre industry cannot be afforded under Common Market competitive conditions.

Possibly the man-made fibre industry is an extreme example of the Common Market competitive element, but the fact that the inevitability of stiffening competition is the main basis for the merger cannot be disregarded in its application to a much wider sphere of British industry.

Sir Ivan Stedeford, chairman of Tube Investments, has said that membership of the Common Market will mean far-reaching changes in industry with possibly whole industries having to be reorganized.

Inevitably a merger of the size of I.C.I. and Courtaulds must lead to a considerable amount of redundancy as the merger is implemented, and its significance with regard to British industry and the national economy is very considerable. The coming year is likely to see many more major regrouping operations over a wide industrial field.

RATES AND PRICES

Closing prices, Tuesday, December 19th, 1961

Tax Reserve Certificates: interest rate (25.11.61) 3½%

Bank Rate

Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	5½%
June 23, 1960	6%	Oct. 5, 1961	6½%
Oct. 27, 1960	5½%	Nov. 2, 1961	6%

Treasury Bills

Oct. 13	£6 0s 0·28d%	Nov. 17	£5 7s 9·71d%
Oct. 20	£5 18s 5·35d%	Nov. 24	£5 7s 9·40d%
Oct. 27	£5 14s 6·57d%	Dec. 1	£5 7s 1·08d%
Nov. 3	£5 8s 6·10d%	Dec. 8	£5 6s 5·34d%
Nov. 10	£5 8s 5·49d%	Dec. 15	£5 6s 4·83d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	4½-5½%	2 months	5½-5½%
Fine Trade Bills		3 months	5½-5½%
3 months	6½-7½%	4 months	5½-5½%
4 months	6½-7½%	6 months	5½-5½%
6 months	7-8%		

Foreign Exchanges

New York	2·80½-81	Frankfurt	11·22½-¾
Montreal	2·93-¾	Milan	174½-¾
Amsterdam	10·12½-¾	Oslo	20·00½-01
Brussels	139·82½-¾	Paris	13·76½-¾
Copenhagen	19·30½-¾	Zürich	12·12-¾

Gilt-edged

Consols 4%	59½	Funding 3% 59-69	82½
Consols 2½%	37½	Savings 3% 60-70	79½
Conv'sion 5½% 1974	91½	Savings 3% 65-75	71½
Conv'sion 5% 1971	90½xd	Savings 2½% 64-67	84½
Conversion 3½% 1969	85½	Treasury 5½% 2008-12	84½
Conversion 3½%	52½	Treasury 5% 86-89	82½
Exchequer 5½% 1966	98½	Treasury 3½% 77-80	69½
Funding 5½% 82-84	90xd	Treasury 3½% 79-81	69½
Funding 4% 60-90	88½	Treasury 2½%	37½
Funding 3½% 99-04	56½xd	Victory 4%	93½
Funding 3% 66-68	84½	War Loan 3½%	52

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

On Advising Clients

SIR, - I was most interested to read the article 'A challenge to the profession' in your issue of November 25th.

Having had practical experience in the three fields specifically mentioned in the article I feel competent to comment on the problem of advising small- and medium-size companies on cost control and finance. In particular, I wish to make the following points.

I agree that accounting machine manufacturers do not provide the answer to the problem. Generally,

they only advise clients contemplating mechanization with their own equipment, and whilst certain basic data for management accounting is produced, they seldom advise *how* the information can be used to increase productivity and improve managerial control.

Nor is the average professional firm in a position to provide an advisory service of the type needed by the small- or medium-sized client. They may employ experts in accounting and cost control, but many such firms believe that 'management accounting' is the answer to all ills, and have forgotten that many small clients can benefit far more from work study, or where there is a diversity of products, by linear programming, than by management accounting. If such service is to be provided for clients, it is essential to employ qualified engineers as well as accountants, which many professional firms seem hesitant to do.

The reputable firm of management consultants, however, is geared far better than either the accounting machine manufacturer or the profession to provide an all-round business advisory service for their clients - it is, after all, their main line of business to do so.

Fees may be high, but surely what matters is the 'return' which a client earns on his initial outlay. In some assignments the client recovers total fees within the first year, in the form of savings which become available as a result of new methods and improved control. Most reputable firms of consultants will carry out their initial survey free, and specify in their report both their fees and expected savings, so that a client has in his possession all the facts which enable him to decide whether to employ the consultants or not. Again, the problem of succession after the consultant has left is an important one, but not nearly so difficult as the article infers, if the assignment has been properly supervised and carried out by the operating consultant(s).

In my opinion, advising clients on finance and generally on ways of increasing productivity and reducing costs in their businesses should be left to the specialist firms of management consultants. Their independent approach, in itself a tremendous advantage, is invaluable especially to the forward thinking medium and smaller companies who perhaps need the services of the management consultant more urgently today than ever before.

Yours faithfully,

O. H. E. PELCZER, *Chief Accountant*
ST KITTS (BASSETTERE) SUGAR FACTORY LTD.
St Kitts, West Indies.

Housekeeper Allowance

SIR, - Twelve months ago you published a query from me relating to an aged widow of nearly 90 years of age who had been compelled to sell her house through loneliness and infirmity and live in a home for aged gentlefolk which costs her ten guineas per week. She is still alive. The local Inspector of Taxes refused housekeeper relief under the changed circumstances because 'She now has no house to keep'. I contended that the home was now her 'house' and that she is still paying for a 'housekeeper'. Relief was still withheld, but the Inspector kindly sent my contentions to the Board of Inland Revenue. The reply of the latter may be of interest to readers, though none replied in your columns. It is as follows:

"The Board regret that they cannot authorize the extension by way of an Extra-Statutory Concession of the income tax housekeeper allowance to cover cases where a widower or widow is obliged to live in a home for elderly people. The Royal Commission on the Taxation of Profits and Income in their Second Report (Command 9105) criticized the housekeeper allowance and recommended that in future it should be confined to cases where one person - a widower, widow or other person - had the single-handed responsibility of bringing up young children, and that the existing extension of the allowance available to widowers and widows without young children should be withdrawn. Action has not yet been taken to implement this recommendation of the Royal Commission, but in

view of it the Board cannot hold out any hope of any further extension of the existing provisions so far as widowers and widows without young children are concerned.'

To my mind, this is a very harsh statement. How many old widowers and widows are *able* to have the care of children? Why this discrimination against the old and infirm? Most of them have ceased being good tax producers, so let us put them up on the shelf and forget about them! They will have the consolation of talking about the golden days of the Good Queen Victoria.

Yours faithfully,

E. W. E. BOOTH, F.C.A.
East Barnet, Herts.

Physician, Heal Thyself!

SIR, - The letter in your issue of December 2nd from Messrs Hartley Turner & Son on 'Future taxation' led me to examine the accounts of James Laing Son & Co (M/c) Ltd as reproduced by the Exchange Telegraph service. How amusing it was to find that while future taxation was treated as a revenue reserve, the proposed final dividend on the ordinary shares - not yet at the balance sheet date a liability at all (or even a deferred liability) - was included in 'current liabilities'.

It was about the mid-thirties when it finally became unfashionable to ignore proposed final dividends in company accounts. Today, the absence of a 'provision' for a final dividend would, when profits exist, be quite certainly exceptional. And yet this very item is perhaps the one figure over which the shareholders have absolute control, whereas they have no power whatever, as at the balance sheet date, to cancel the company's future tax liabilities. So the balance sheet is, in practice, not the instantaneous photograph we once learned it to be, but rather is it touched up to portray its appearance in the light of a subsequent resolution of shareholders. Why should we not then touch it up for the effect of the deferred liability for taxation arising, like dividends, out of the profits up to the balance sheet date?

Yours faithfully,

G. F. M. RUFFORD, F.C.A., A.C.W.A.
Cheltenham, Glos.

Calculating Days of Credit

SIR, - In reply to 'Controller's' inquiry (December 2nd issue) for a formula to indicate average length of credit, I have found that the best method is to express the total of outstanding debtors at the end of the month as a percentage of a fixed period of actual sales ending on the same date. The variation in the percentage figure each month gives a rough and ready indication of the trend of credit taken.

The length of the period adopted should be selected so as to represent the normal average period of credit given in the particular trade concerned, or a weighted average of the normals where different credit conditions apply.

Any percentage answer in excess of 100 will indicate the excess credit being taken in terms of average excess time, i.e. if the normal credit period is six weeks, an answer of 120 per cent would indicate an average period of credit taken of seven and one-fifth weeks. But when a series of months' percentages has been built up (this can easily be done retrospectively to put the current figure in perspective), 'Controller' will soon see what is happening by comparing percentages from month to month and one company with another.

It is a mistake to use annual sales in the formula as seasonal fluctuations in sales and debtors must both be taken into account.

Yours faithfully,

L. B. DYBALL, F.C.A.

London WC2.

Research on Wills and Trusts

SIR, - I am engaged in a study of the relationship of the accounting and legal professions in this country. I am interested in the manner in which executry and trustee work is undertaken by chartered accountants

in England. If any firms of chartered accountants who undertake this type of work would assist me in letting me have some elementary details of their arrangements, I would greatly appreciate it.

This information is required in connection with a serious research programme and I can assure any members who are good enough to write that any information they give me will not be reproduced in any recognizable form. If members wish to write to me anonymously I will appreciate their reasons for doing so. Briefly, I would like to know the following:

- (1) Is the work undertaken largely that of factoring executries or trusts or is the actual administration of the executry or trust undertaken by the firm?
- (2) Does the firm employ a firm of solicitors to draw up wills in which the chartered accountant firm is appointed executor or trustee?
- (3) At what stages, if any, is the firm of solicitors employed in the actual administration of the executry or trust?

I will acknowledge all information given, if the address of the writer is provided.

Yours faithfully,

ALEX. SIMPSON.

52 Bryce Road, Currie,
Midlothian, Scotland.

Taxation Case

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

In Re Courtauld's Settlement

In the Court of Appeal - October 30th, 1961

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice DONOVAN and Lord Justice DANCKWERTS)

Estate duty - Exemption - Marriage settlement - Discretionary trusts - Inclusion of other persons besides parties to the marriage and their issue - Whether a gift in consideration of marriage - Customs and Inland Revenue Act, 1881, Section 38 (2) - Customs and Inland Revenue Act, 1889, Section II (1) - Finance Act, 1894, Sections 2 (1) (c), 3 (2) - Finance (1909-10) Act, 1910, Section 59 (2).

In a settlement made on March 20th, 1956, between a father, his daughter, the intended husband of the daughter and trustees, the marriage shortly to

be solemnized was recited, and also that it had been agreed that the husband should settle property by a deed of even date, and that the father had agreed to make the settlement therein contained. This settlement was stated to be in execution of the agreement and in consideration of the intended marriage. There was to be a 'specified period', which was to begin on the day of the marriage and end at any one of several specified dates; and the beneficiaries were defined as meaning the daughter, her issue, all other issue of the settlor (whether children or more remote and whether present or future), the intended husband and every other person (whether then alive or thereafter coming into existence) who should at any time have inter-married with any of the issue.

Clause 4 of the settlement deed began as follows:

'The trust fund and the income thereof shall be held upon such trusts and subject to such charges powers and provisions whatever in favour or for the benefit of all or any one or more exclusively of the others or other of the beneficiaries as the trustees in their absolute discretion shall at any time or times during the specified period by any deed or deeds revocable or irrevocable appoint (regard being had to the law relating to remoteness).

The trustees were given wide powers as to the disposal of the trust fund, and by clause 5, in default

of, and until and subject to, any and every exercise of those powers the income was to be held during the specified period for paying or applying it to or for the benefit in any manner of any of the beneficiaries for the time being in existence. The application of the income was to be in such shares and in such manner and on such terms and conditions as the trustees in their discretion should think proper. In default of, and subject to, any disposals under clause 4 the trust fund and income was from the end of the specified period to be held absolutely for the settlor's issue then living; and subject to all the trusts, powers and provisions of the deed the trust fund, so far as not disposed of, and the income, were to be held for the intended wife and her personal representatives absolutely.

The intended marriage took place on April 4th, 1956. On March 3rd, 1959, the father died. Estate duty was claimed on the trust fund as a gift *inter vivos* within the five years before the date of the settlor's

death. In support of the claim it was contended (a) that the whole transaction was colourable, in that it was untrue that the settlement was made 'in consideration of the said intended marriage', (b) that in truth the settlement was made on the whole of the settlor's family, the marriage of the daughter being simply the occasion for it, (c) that the settlement was not a gift in consideration of marriage, as the parties to the marriage did not take the whole of the settled property. For the trustees it was contended that the consideration for the making of the settlement was, in fact, the marriage; and that it was immaterial that persons other than parties to the marriage were included among the beneficiaries.

Held (affirming the judgment of Mr Justice Buckley): estate duty was not payable on the trust fund, because that fund was on the evidence a gift 'made in consideration of marriage' within the meaning of those words in Section 59 (2) of the Finance (1909-10) Act, 1910.

SOLUTION TO 'A CHRISTMAS CAROL'

The quotation from the carol is:

'Hark the herals angels sing,
Glory to the newborn king.
Peace on earth and mercy mild,
God and sinners reconciled.'

— and the answers to the questions on earlier pages of this issue are:

- | | | |
|-----------------------------------|--|-----------------------------------|
| 1. Hoover, Herbert. | 27. Rifle-shooting. | 59. Dodecahedron. |
| 2. Abyssinia. Haile Selassie I. | 28. Yum-Yum, in <i>The Mikado</i> . | 60. Mozart. |
| 3. Radcliffe, John. | 29. Trollope, Anthony. | 61. Eclogues. |
| 4. Kabul. | 30. Oakley, Annie (<i>Annie Get Your Gun</i>). | 62. Ranee or Rani. |
| 5. Thursday. | 31. Thurso. | 63. Cannibalism. |
| 6. Herpetology. | 32. Hichens, Robert. | 64. Yale. |
| 7. Ecclesiologist. | 33. Epicurus. | 65. Medici. |
| 8. Hardy, Thomas. | 34. Norfolk. | 66. Ivy. |
| 9. Egypt. | 35. E. | 67. Lucy. |
| 10. Renfrew. | 36. Williams, Emlyn. | 68. Dickens, Charles. |
| 11. Apollo. | 37. Beetles. | 69. Genocide. |
| 12. Lopokova, the Russian dancer. | 38. Overlord. | 70. Ombre. |
| 13. David. | 39. Rubens, Peter Paul. | 71. Dandie Dinmont. |
| 14. Australia. | 40. Nirvana. | 72. Apples. |
| 15. Naseby. | 41. Knox, Monseigneur Ronald. | 73. Negus. |
| 16. Gregorian. | 42. Iris. | 74. Dempsey, Jack. |
| 17. Eschatology. | 43. Noncupative. | 75. Samurai. |
| 18. Llandaff. | 44. Geneviève. | 76. Istanbul. |
| 19. Saratoga Springs. | 45. Poland. | 77. Nietzsche, Friedrich Wilhelm. |
| 20. Sussex. | 46. Edward VI. | 78. New Forest, Hampshire. |
| 21. Isis. | 47. Aristotle. | 79. Eden. |
| 22. Nash, George. | 48. Capote, Truman. | 80. Rococo. |
| 23. Galahad. | 49. Elgar, Sir Edward. | 81. Sans Souci. |
| 24. Gath. | 50. Oligarchy. | 82. Rasselas. |
| 25. Lang, Cosmo Gordon. | 51. Newman, Cardinal. | 83. Eglantine, Madame. |
| 26. Ormsby Gore, Sir David. | 52. Ecclesiastes. | 84. Christmas, Martin. |
| | 53. Allopathy. | 85. Orlando. |
| | 54. Romulus. | 86. Nicolai, Carl. |
| | 55. Tennyson, Lord. | 87. Comma. |
| | 56. Hammersmith. | 88. Ivan. |
| | 57. Apollyon. | 89. Langland, William. |
| | 58. Nansen, Fridtjof. | 90. Encaenia. |
| | | 91. Droeshout, Martin. |

NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' ANNUAL DINNER

A warning to students not to become disillusioned or cynical was given by Mr L. F. Hay, a Senior Inspector of Taxes, at the annual dinner of The Nottingham Chartered Accountant Students' Society on December 13th.

Mr Hay, who was replying to the toast of 'The Guests', told the hundred students present:

'You have been trained to the highest pitch of technical perfection. Most of you will, perhaps, never know so much again.

'You may have been a little starry eyed - sheltered from the rude world outside where tax inspectors wait - and after a year or two, you may become a little disillusioned and cynical.

'This period soon passes and you will find that, although the prize may not always go to the honest man, this is no reason to give up.

'We are all bound to the principles of truth, accuracy and care - however mutilated they may become. It is their preservation that is the important thing. These are the things that make 'chartered accountant' a byword throughout the world for precision and accuracy.'

'Taxperts'

Brigadier John Anstey, C.B.E., director of the Imperial Tobacco Co of Great Britain and Ireland, and manager of the branch of John Player & Sons, proposed a joint toast to The Institute of Chartered Accountants in England and Wales and to the Students' Society. He told the company:

'Since 1880, your profession has come a long way. The main concern in those days was auditing and bankruptcy - but so helpful has your service been that, not only are we finding your accounts correct, but hardly anyone goes bankrupt these days.'

He said accountants had become 'taxperts'. And he described an accountant as 'a person who prefers to be precisely wrong than roughly right.'

Mr P. F. Granger, F.C.A., President of the Institute, replying, said that with the development of the computer, it was quite staggering what was being done in the accountancy field. 'I don't think any of us realize what will be the effect of this mechanization and I think we shall remain in the dark for a bit.' 'So you young chaps are going to have an interesting time,' he added.

Lack of Members' Support

Replying to the toast of 'The Society', Mr N. H. Deakin, Secretary of the Society, urged more members to take part and take an interest in the Society's activities.

'We produce a full programme for the education and amusement of our members. The Society not only helps with students' exams but broadens their outlook.

'We know students have a hard time studying, but it is easy for article clerks to be cut off from reality.'

He said that students may be able to pass examinations but accountants must also be able to think clearly and use their common sense. They must know their textbooks but there were many situations in life for which there were no textbook solutions.

'But we must have more support than we have had lately. Before we organize anything we have to be sure there is enough support to make it worthwhile. It's a pity we do not hear the views of those who never attend.'

Mr Deakin added: 'There are many things in life besides accountancy and I think the Students' Society has a place in teaching us these things'.

He went on to praise the Parker Report on education and training for the profession which he described as 'one of the greatest things of the past year'.

The three years' preparation of the report had been well worth the wait, he said, and 'we owe our sincere thanks to the whole of the committee that prepared it'.

Mr E. Cross, F.C.A., President of the Nottingham and District Society of Chartered Accountants, presented Mr Richard Turton, A.C.A., with the Howitt Prize.

Extra Service

Mr Cross said that being a good chartered accountant was not only knowing the answer to academic problems.

'It's rather finding a man who is willing to give that extra service which will not bring him any monetary reward but which will get him the real thanks of his fellow students and the people he has met.

'He should get an inner reward - satisfaction from knowing he has done good for his fellows; he should exhibit, at all times, the characteristics of a gentleman.'

Another recipient, Mr Christopher Granger, A.C.A., is seriously ill in Nottingham General Hospital. He will receive his award from the President of the Institute and Sir Harold Howitt himself, on January 4th, when Sir Harold is visiting Nottingham.

Mr J. J. Ross Sergeant, A.C.A., chairman of the Student Society's Committee, proposing the toast of 'The Guests', spoke of Christopher Granger whom he described as 'a staunch friend for many years'. He was a past secretary of the society and 'very popular'.

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Notes and Notices

PROFESSIONAL NOTICES

MESSRS DOWN, SON & HARPER, Chartered Accountants, and MESSRS GOULD, PRIDEAUX & HARGREAVES, Chartered Accountants, announce that they are amalgamating their practices as from January 1st, 1962, from which date the joint practices will be carried on under the name of DOWN & Co. All partners in both firms will become partners in the joint practice. On and after December 29th, 1961, the new address of both firms will be 22 City Road, London EC1. Telephone: Monarch 0046.

MESSRS HEReward, SCOTT, DAVIES & Co, Chartered Accountants, announce that, as from January 1st, 1962, their offices at Finchley, Palmers Green and Barnet will be transferred and will be integrated in a new office block at Hillside House, 2-6 Friern Park, London N12, where Mr A. J. KNIGHTS, F.C.A., will be the partner in charge.

MESSRS MYRING & BRADBURY, Chartered Accountants, announce that they have moved their offices to 27-28 Finsbury Square, London EC2.

MESSRS R. J. WESTON & Co, Chartered Accountants, of Probate House, 37/38 St Mary's Gate, Derby, and MESSRS BOCOCK, JEFFERY & Co, Chartered Accountants, of College Chambers, 110 Green Lane, Derby, announce that as from December 1st, 1961, the two partnerships became closely associated. Mr ALEXANDER SEDDON, F.C.A., of R. J. WESTON & Co, became a partner in the firm of BOCOCK, JEFFERY & Co and Mr C. N. BOCOCK, F.C.A., and Mr FRANK JEFFERY, F.C.A., became partners in the firm of R. J. WESTON & Co.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Summer Courses

Two booklets containing a record of the proceedings of the summer courses of The Institute of Chartered Accountants in England and Wales held at Christ Church, Oxford, from July 13th to 18th, and at Gonville and Caius College, Cambridge, from September 13th to 17th, have now been published.

Each booklet incorporates the texts of the addresses presented at the respective courses, the names of members of the discussion groups, and the names of those who attended. Members, particularly those who were unable to be present at either of the courses, will find the booklets of considerable value for reference purposes. Copies are available from the Secretary of the Institute, Moorgate Place, London EC2, price 5s each including postage; remittances should accompany orders.

Taxation and Research Committee

The one-hundred-and-eighteenth meeting of the Taxation and Research Committee was held at the Institute on Thursday, December 14th, 1961, at 2 p.m.

Present: Mr S. M. Duncan (in the chair); Messrs F. W. Allaway, G. R. Appleyard, G. L. Aspell, T.D., J. T. Barraclough, R. D. R. Bateman, M.B.E., C. J. M. Bennett, R. P. Brown, K. A. Buxton, W. R. Carter, R. A. Chermiside, L. H. Clark, W. F. Edwards, N. Cassleton Elliott, E. S. Foden, C. R. P. Goodwin, A. P. Hughes, G. N. Hunter, J.P., H. Kirtton, T.D., C. Yates Lloyd, J. W. Margetts, A. G. Martin, B. A. Maynard, S. A. Middleton, G. P. Morgan-Jones, E. J. Newman, R. D. Pearce, L. Pells, J. Perfect, T. B. Pritchard, A. H. Proud, J. D. Reekie, D. W. Robertson, H. Robinson, C. Romer-Lee, E. C. Sayers, H. G. Sergeant, H. C. Shaw, H. Eden Smith, D. E. T. Tanfield, A. G. Thomas, L. R. Turner, D. C. Urry, and G. H. Yarnell, together with Messrs D. O. Bailey, D. Garrett, D. A. A. Longman, and G. H. Vieler, with the Assistant Secretaries.

Membership

The chairman extended a warm welcome to the following new members of the committee who were attending for the first time:

Mr A. G. Martin (Leeds).
Mr E. C. Sayers (Co-opted).

It was agreed that letters of appreciation for their services be sent to the following who have retired from membership of the Committee:

Mr R. O. A. Keel.
Mr D. T. Veale.

Sub-committees

Reports of progress were received from sixteen sub-committees.

Future Meetings

The one-hundred-and-nineteenth meeting of the committee will be held on Thursday, February 8th, 1962, and the following dates have been provisionally fixed for meetings in 1962:

Thursday, April 12th, 1962.
" June 14th, 1962.
" September 13th, 1962.
" October 11th, 1962.
" December 13th, 1962.

GRADUATED CONTRIBUTIONS H.M. FORCES

The Minister of Pensions and National Insurance, has made regulations¹ containing miscellaneous provisions concerning the operation of the graduated pensions scheme as it affects members of H.M. Forces. The regulations which came into operation on December 18th, have been approved in draft by the National

¹The National Insurance (Members of the Forces) Amendment Regulations, 1961, S.I. 1961 No. 2352, H.M.S.O., price 5d.

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Insurance Advisory Committee whose report¹ was published last week.

The regulations set out the extent to which existing national insurance provisions affecting members of the Forces apply to graduated contributions and contain provisions ensuring that National Service Grants and pay for short periods of territorial and reserve training do not lead to liability for graduated contributions. They also lay down the arrangements for assessing graduated contributions on naval pay and define the liability for flat-rate contributions where (as on release leave) members of the Forces are also in a civilian employment which is contracted-out.

¹House of Commons Paper No. 33, Session 1961-62, H.M.S.O., price 5d.

CORRECTION

Income Taxes in the Commonwealth

It is regretted that certain figures relating to Guernsey, Alderney and Herm were wrongly quoted in the comparative study on 'Income Taxes in the Commonwealth' in our issue of November 25th. The amendments required are:

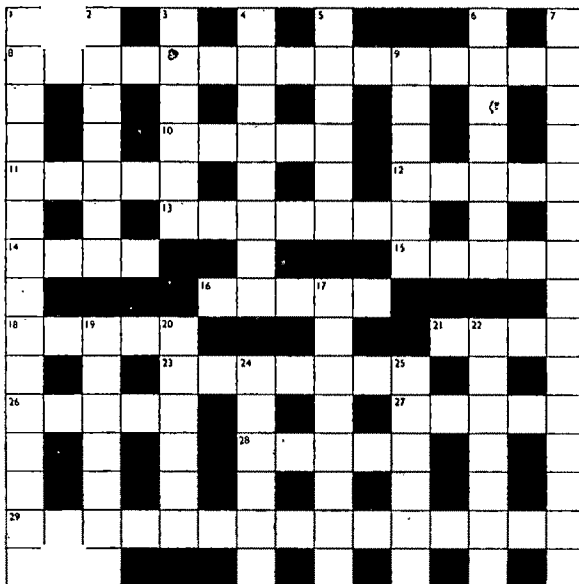
Allowances:

personal, wife, 1st and 2nd child - all £20 more.¹
earned income relief - one-quarter of first £1,600.
Tax on £1,500 - £5 less in each case.

¹References to married allowance for third and subsequent children made in the Notes to Chart 1 and in the footnote on the chart are no longer appropriate.

CHRISTMAS CROSSWORD

Compiled by Kenneth Trickett, F.C.A.



CLUES ACROSS

8. In the High Court he deals with actions concerning disputed accounts (8, 7).
10. Owned, possibly, to provide means of support (5).
11. Preliminary share certificate, nearly all an original document (5).
12. Take possession in between terms (5).

13. Proposals made to 2 (7).
14. Employer's conclusion as heard in a law court (4).
15. Antilog (log 24-down - 0.6021) (5).
16. Concede to bring in (5).
18. Section 143, Income Tax Act, 1952, does not apply where a trade carried on by a single individual is discontinued by reason of his — (5).
21. They are collected for statistical presentation (4).
23. Calls to witness trials after objection (7).
26. Having a line broken, he is disqualified from owning a British ship (5).
27. In insurance it is commercial (5).
28. ... the assessment was excessive by reason of some — or mistake ... (Section 66, Income Tax Act, 1952) (5).
29. A bankrupt's liability which in the opinion of the Court cannot be fairly estimated would come under this heading (3-8, 4).

CLUES DOWN

1. Practice for partners learning to play bridge, perhaps (6, 2, 7).
2. Party to a contract takes off before E (7).
3. Assent to the drawer's order (6).
4. Reached a higher level in the market (8).
5. What the acceptor of a bill was originally (6).
6. Allowance or one of the parties to a bill of sale (7).
7. Tenner due Friday, but it does not come into effect until a specified later period (8, 7).
9. The sharpest may penalize a saint (6).
17. In an official writer, meaning 12 perhaps (8).
19. An allowance many mix with oil (7).
20. Number in an hour to pay when due (6).
22. Heir to property has a right, errors excepted (7).
24. Twice as many would be appropriate here (6).
25. The Special Commissioners' office is in here (6).

The solution will be published in next week's issue.

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THE ACCOUNTANT

ESTABLISHED 1874

DECEMBER 30TH, 1961

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Looking Back on 1961

IF, as ROBERT LOUIS STEVENSON said, the true success is to labour, then the calendar year now ending has been a rewarding period for most accountants. Those in practice have continued to find that auditing and taxation are no longer the only categories into which the services they provide may be classified and that 'special' now covers a range of assignments which becomes more varied and, dare it be said, more remunerative as time goes on. Accountants in industry, too, have found themselves working at full throttle throughout the year preparing, in many instances, for the possible challenge, exhilarating but exacting, of the Common Market.

Busyness, however, is not in itself an indication of progress and for an idea of how the standards of the profession have fared during 1961 one must look first to the activities of the councils of the various bodies and to the publications which have made their appearance during the past twelve months. Evidence, in one form or another, has been submitted to the Jenkins Committee on Company Law Reform by The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants of Scotland and The Association of Certified and Corporate Accountants, and the many constructive suggestions made therein will no doubt be given serious consideration.

In May, the long-awaited report by the Parker Committee of the English Institute on the education and training of articled clerks was published and caused no small stir, both by its forthright comments on the standards to which both principals and their practices should conform if they are to give their articled clerks the proper measure of guidance and experience, and by its proposals to raise the all-round educational level of new entrants and subsequently, to streamline their professional training more closely to the requirements of the times. MR PARKER and his colleagues have commendably held to the view that there may be alternative routes to becoming a chartered accountant but that none of them should be less testing than the road at present taken. The reactions of the appropriate committees of the Council and the committees of the district societies to this stimulating diagnosis are now eagerly awaited not only by members and their present pupils but also by prospective clerks.

Another document of more than ordinary interest to come from the Council of the English Institute in 1961 was the first of a projected series of statements on auditing. Herein, the Council restated the fundamental general principles, taking into account the change of emphasis in the purpose of present-day auditing,

with great clarity. The series, when completed, should constitute a completely new philosophy of the subject.

Is it because of its high mathematical reputation that accountants tend to gravitate to Cambridge for their conferences? The Association led this year's pilgrimages with a week-end school on management accounting at Gonville and Caius in March. In September, the English Institute inaugurated a summer course at the same college to supplement the usual Oxford course at Christ Church in July and, once more, The Institute of Cost and Works Accountants returned to St Catherine's College for their twelfth residential course, also in September. The ninth summer school of the Scottish Institute was held as always at St Andrews in June. At all of these gatherings, learning and levity were judiciously mixed in just the right proportions.

The determination of the Council of the English Institute to look after the legitimate interests of its members, and, by so doing, to maintain the high standards of the profession as a whole was practically demonstrated in October when the PRESIDENT invited the district societies to participate in an inquiry into the problems confronting the small practitioner and suggested the lines along which such an investigation might proceed. The Council expects to have the results to hand by the end of next month and the co-ordinated information and the conclusions to be drawn therefrom, if eventually published, should shed more light on the many grievances which have been so honestly and openly aired in our correspondence columns over a long period.

One of these, shared by practitioners large and small, is how to get the public to appreciate the distinction in quality between the services of a professionally trained accountant and those of a cut-price quack. The American Institute of Certified Public Accountants this year started a series of public relations clinics to assist members on a 'do-it-yourself' principle to strengthen communications between accountant and client and generally to project the same spirit of goodwill and understanding to the world at large. The difficulty about schemes of this kind is that they might possibly develop into self-advertisement, a practice which is alien to the ethos of any true profession; but handled carefully and backed by the solid performance which is the ultimate

criterion of the worth of any accountant to the community, a little discreet trumpet-blowing in a minor key might do much good. The American experiment is no doubt being watched with keen interest by many professional bodies elsewhere.

While, as suggested above, the progress of a profession can best be judged by the vision of its rulers, there are always some individual exemplars who bring lustre to it by their own achievements. It would be wrong to suggest that THE RT HON. THE VISCOUNT DE L'ISLE, V.C., P.C., D.L., M.A., F.C.A., was appointed Governor-General of Australia this year because he is a chartered accountant, but the fact that he is a member of the profession adds considerably to its standing. During 1961, many accountants have been given tasks of national importance and two of these – singled out because the problems they have to help solve affect almost everyone – are PROFESSOR ROBERT BROWNING, C.B.E., M.A., LL.B., C.A., who in March last was named as one of the five members of the newly set up Royal Commission on the Press, and MR P. H. SHIRLEY, a member of The Institute of Chartered Accountants in Australia, co-opted in August as a full-time member of the British Transport Commission, responsible for finance. If one other name may be mentioned – and not for the first time in these pages – it is that of SIR HAROLD HOWITT, G.B.E., D.S.O., M.C., D.C.L., LL.D., D.L., F.C.A., who in January retired from the Council of the English Institute after serving on it for thirty years. It is good to learn from his valedictory remarks that he will be watching from the touchlines and will be available if required. SIR HAROLD's retirement from public practice as from this year-end is also now announced, and on another page we include a tribute to him and add our good wishes to the many he will be receiving for a long and happy retirement.

SIR HAROLD is billed to speak at the Eighth International Congress of Accountants in New York next September which is now rapidly taking shape. In 1963, the first Congress of European Accountants will be held in Edinburgh but perhaps this is looking rather far ahead. One good thing about the future, as the old lady said, is that it comes just a day at a time and, by the same reasoning, one year at a time is enough for a short review of anything so dynamic as the accountancy profession.

The Special Degree

THE warm discussion in our correspondence columns which followed the leading article in our issue of November 30th on 'University graduates and the profession' shows there is much interest in the 'special degree' in accounting – and some misunderstanding of its aims and nature. A re-statement of these matters thus seems timely. Towards the end of the Second World War, the McNair Committee – representing the English Institute, the former Society of Incorporated Accountants and The Association of Certified and Corporate Accountants and the universities – recommended the setting up of university degrees suitable for future accountants. Such degrees were to have accounting, economics and law as their main subjects, and were also to include courses in related topics such as government. Twelve universities agreed to set up such degrees, and the scheme was launched soon after the war. Graduates under the scheme, like other graduates, serve articles for only three years; unlike other graduates, they are exempt from the professional Intermediate examinations.

Thus the scheme was well established when the Parker Committee considered it. At best, their verdict is tepid, for at page 55 of their report they say:

'The only conclusion we can reach is that even after fifteen years there is still not enough evidence to show whether in general the scheme should be encouraged or abandoned or changed or left as it is. We therefore favour leaving it substantially as it is pending still further experience of its value.'

The reasons for this lack of enthusiasm are not entirely clear, but seem in part to be based on examination statistics for candidates who entered articles during 1952. These show, for groups with different educational backgrounds, the following percentages of success at the first attempt:

<i>Educational standard</i>	<i>Passed at first attempt – per cent of each group</i>
Ordinary level G.C.E. (various age groups)	20–45
Advanced level G.C.E.	54
Special graduates	60
Other United Kingdom graduates	69

Thus, while those with the special degree did better than those with no degree, they had less success than holders of other degrees. However,

the figures have obvious flaws. The sample was too small (only forty-two special graduates) to be reliable. Further, the holders of other degrees must sit the Intermediate; so they have an inducement, right from the start of their articles, to begin preparing for their professional examinations. The special graduates are spared this study and sifting in the early months of articles. Perhaps the moral is that some concession other than complete exemption from the Intermediate should be used to attract special graduates. And it would be interesting to see later examination results, showing what has happened since most of the special degrees were converted from pass to honours standard. Professors of economics at several of the universities have stated that accounting students now include some of the most lively and able members of their honours schools. It is worth noting that, of the top seven candidates with distinction in the Institute's Final examination of 1961 (summer), four were special graduates – two with first-class honours, and two with upper seconds.

The Parker Committee do suggest, on page 55 of their report, one slight change in the present rules. The scheme's founders expected that youths leaving school would first get into touch with a professional firm, would then be encouraged by the firm to take the degree, and would go back to the firm during university holidays. With the help of this vacation work the total time for degree and articles could be cut down to five and three-quarter years. But, in fact, few students ask for this concession, and the Committee wish to rescind it. This seems sensible. Holidays give the student the best chance that he will ever enjoy to read, travel, and take interesting jobs; any lad of spirit will seize this chance. Inquiry suggests, moreover, that recruits to the scheme rarely come from the profession; often they reach a university still undecided about their careers, and become interested in accounting because it is a subject in their curriculum. About one hundred new articulated clerks are produced by the scheme each year; so, if the above view is correct, the scheme is, it would seem, conferring a substantial benefit upon the profession.

Criticism of the scheme tends to come from

two quarters. Some employers complain that the new graduate is initially less useful in the office than the clerk with three years of audit experience. This, no doubt, is often true, but the argument fails to appreciate the aims of education: a university's job is not to provide synthetic office training, but to lay the foundations for long-term development. It does not in every case succeed; graduates, like any other group, vary in quality – and the employer must be careful not to generalize from a small sample. Normally a graduate who takes articles should learn the ropes fairly fast; and, when he matures, he is likely to tackle novel and hard problems with ability. So the profession must choose between short- and long-run gains.

The second criticism takes precisely the opposite line, attacking the special degree because it is too practical. Students should – the argument runs – seek breadth by reading some subject remote from accounting. This view is, of course, often wise. The lad with a strong taste for, say, Greek or geology should most certainly read his favourite subject. But many young people not unnaturally find a deep interest in their future

life-work. For them, the special degree may well be more stimulating than any other type of study. And a degree that includes economics and law, together with such subjects as politics, history and mathematics, will not fail to give breadth – more breadth, indeed, than some degrees in arts and science. Accounting itself can be a broadening subject if stress is laid on principles, interpretation, and controversy – rather than technique.

There is at least one more argument for the special degree. Accounting – as a profession and an area of knowledge – is surely important enough in its own right to deserve critical study by outside scholars. American experience has shown that such study can, by a feed-back process, contribute to practice – that universities produce new accounting as well as new accountants. It would be strange if Britain, too, did not gain by fostering strong schools of accounting in her universities.

For all these reasons, one wonders whether the Parker Committee should not have decided that the special degree, though capable of improvement, is after all remarkably well-conceived in structure and worthy of encouragement.

Decimal Currency Decision

THE CHANCELLOR OF THE EXCHEQUER'S announcement last week that a committee of inquiry is to be set up to investigate the most suitable form of decimal coinage system for the United Kingdom, the steps which would have to be taken if it were adopted and the cost, will be heartily welcomed by all those who have been pressing for this sensible reform, including ourselves. It seems clear from MR SELWYN LLOYD's answers in the House that the Government has already accepted the principle of decimal currency but wishes to be reassured that the transitional cost would not be prohibitive or the difficulties overwhelming.

The committee, which will be headed by LORD HALSBURY, should not have undue trouble in fact-finding and reporting. Much useful information on the ways and means of effecting the changeover has been collected and published during recent years and, in 1960, a comprehensive report on the subject was issued jointly by the British Association and the Association of British Chambers of Commerce. Moreover, there is an almost up-to-

the-minute case-study available in South Africa which changed from £ s d to a decimal system with 100 as the principal unit last February.

It is expected that the report of LORD HALSBURY's committee will be completed during 1962 and, having at long last taken a positive step, the Government seem anxious to hurry things on. This is understandable as the longer the change-over is delayed the greater will be the cost. Ironically, the Decimal Coinage Bill, a private member's measure, was tabled and received its first reading earlier this month but its chances of receiving or surviving the second reading, due for May 4th, are remote. However, it does look as if, after having given the matter intermittent thought for the past 137 years and having been guided (or confused) by four Royal Commissions during that period, the Government means business on this occasion. We do not think that we are speaking out of turn when we say that the resources of the accountancy profession are at LORD HALSBURY's disposal to help him promptly to make his submissions to the CHANCELLOR.

Trustees who Did Not Need the Act And Others who Need More

by WILLIAM PHILLIPS

Author of *Pension Scheme Precedents*

SO much attention has been focused on the plight of those trustees whose hands were tied by restrictions on their investment powers – however sensible when prescribed many years ago – and their rescue by the provision of wider powers appropriate to the circumstances of today, belatedly provided by the Trustee Investments Act, 1961 (hereafter referred to as ‘the Act’), that its effect upon trustees whose hands have never been so tied has largely been overlooked.

The first purpose of this article is to discuss innumerable trusts with wide investment powers – many much wider than the Act prescribes – and other trusts with powers narrower than those prescribed by the Act, but with sufficiently wide powers of amendment not to need any assistance from the Act to be able themselves to widen the investment powers,¹ who did not need the Act but have had it thrust upon them.

Hitherto the assistance of the Courts under Section 57 of the Trustee Act, 1925, or under the provisions of the Variation of Trusts Act, 1958, in respect of *cestuis que trust not sui juris* was only available if all the competent beneficiaries concurred. A single adult beneficiary of sound mind has hitherto been able to bar a widening of investment powers much desired by everyone else, and one recalls a pension scheme with hundreds of pensioners and thousands of future pensioners which was faced by an ultimate reduction in pensions unless it could get away from the stranglehold of out-of-date investment restrictions, which was prevented from putting its house in order in this respect by one only obstinate and selfish pensioner already 78 years old.

But where all the *cestuis que trust* have been of age and otherwise competent and in favour of wider investment powers, the assistance of the Act has been no more needed than it has been by trustees with sufficiently wide powers or powers capable of being sufficiently widened. They, in common with trusts which already had sufficiently wide investment powers, did not need the Act, but nevertheless will be required to study and

consider its effect upon them – in some cases’ perhaps, much to their surprise. The Act has embarrassed some trusts by thrusting upon them powers wider than they needed and has imposed restrictions upon others in ways which perhaps not all of them yet recognize.

A good deal of difficulty in coming to grips with the Act arises from the decision of the draftsman to intertwine throughout it those special provisions, of limited interest to the few and of no interest whatever to the many, which deal with various Acts and instruments made under enactments and enactments contained in local Acts of the present session. It is a great pity that all these could not have been untwined and relegated to some concluding section of the Act dealing with nothing with which ordinary trustees need concern themselves. They have, in fact, been untwined for the purpose of this article, and here will be ignored.

Fund with ‘Special-range’ Property

The ‘special-range’ property of the Second Schedule means property in which, independently of the Act, trustees have power to invest (or to postpone conversion), namely, the special-range power of Section 3 (1).

Special-range property can therefore consist of either or both of classes:

- (a) ‘wider-range’ investments specified in the First Schedule, Part III;
- (b) investments such as shares or debentures
 - (i) the dividends or interest on which are payable otherwise than in sterling, or
 - (ii) not quoted on a recognized stock exchange within the meaning of the Prevention of Frauds (Investments) Act, 1958, or the Belfast Stock Exchange, or
 - (iii) not fully paid-up, or
 - (iv) of an incorporated company of which the paid-up share capital is less than one million pounds, or which has not paid a dividend on all its shares for the five immediately preceding years;
 (which investments, owing to the unfortunate phraseology of the Act, we must, until that Act is happily amended, call ‘even-wider-range’ investments.)

¹ In which regard see *Re Jewish Orphanage Endowments Trusts* ([1960] 1 W.L.R. 344).

It is suggested that class (a) investments, at any rate to the extent that they do not exceed one-half of the balance of the fund, ought not to have been included in special-range investments. Ought not 'special-range' investments to have been limited to such surplus class (a) and to class (b)? For note an example of what has happened: six years ago, say, after very careful consideration by all concerned, a trust was set up under which the trustees were empowered to invest up to 50 per cent and no more of the fund in certain carefully specified investments which, in the sequel, all fall within the First Schedule, Part III, §1, as modified by Part IV, definition of 'wider-range investments'. In the result the Act thrusts upon the trustees unwanted power to invest the fund as to 75 per cent in wider-range investments, with the consequential ordinary duty of trustees to the *cestui que trust* to consider the possible use of those wider powers.

The position is not much better if the carefully considered powers prescribed six years ago have resulted in the fund being invested on the day the Act came into force, as to 50 per cent in what are now narrower-range investments, 25 per cent in what has here been called class (a) and 25 per cent in class (b). The Act allows class (a) to be increased to 50 per cent of the total, with 25 per cent in narrower-range and 25 per cent in the even-wider range.

In both cases, in the guise of coming to the rescue of trustees hampered by restrictions put upon them any time in the past thirty-six years, the Act completely upsets plans carefully made only six years ago.

Universal Effect of Section 6 (1)

Where the trustees have been given (as they are so often given nowadays in pension scheme trusts) the same wide powers of investment of the moneys of the fund 'as if they were absolutely and beneficially entitled to those moneys', they may be tempted to believe that they can avoid the expenditure of 1s 3d to purchase a copy of the Act and need not concern themselves with it. This belief, if it exists, is quite wrong.

Wherever in the Act a prescription in one section relates to the prescription of some other section, that relation is carefully spelt out. No such connection with any other part of the Act is to be found in Section 6 (1). It is of universal application to *all* trustees and cannot be ignored by them though they ignore the rest of the Act. This subsection requires the trustee – no matter whence he derives his powers of investment – to

have regard to the need for diversification 'so far as is appropriate to the circumstances of the trust', and also to have regard 'to the suitability to the trust of investments of the description of investment proposed and of the investment proposed as an investment of that description'. He is to have regard to both these matters 'in the exercise of his powers of investment', so that although subsection (3) of Section 6 clearly refers only to the retaining of investments made under powers conferred by the Act, he will usually have to consider the propriety of retention from time to time because the changing of investments normally lies within his 'powers of investment'.

Whenever any investment included in the batch of special-range property is realized and the proceeds are not reinvested in such property, and so much of the trust fund as excludes special-range property has not under the Second Schedule §2 (1) been divided into two parts pursuant to Section 2 (1), those proceeds must be put into the narrower-range part of the fund, under the provisions of Section 1 (1) (because it is the only part of the Act applicable). If that much of the fund has been so divided (and only then) the proceeds of the realization *must*, pursuant to Section 2 (3), be divided equally between the narrower-range and the wider-range parts of the fund (bearing in mind that while whatever is put into the narrower-range part must be held in narrower-range investments, what is put into the wider-range part can be held in either narrower-range or wider-range investments).

But what if the trust fund, in the modified meaning given to it by the Second Schedule §2 (1), which Section 2 (1) permits to be divided into two equal parts, is precisely nil? For example, supposing that on the day the Act came into force the whole trust fund was, under a special power, invested in the Ordinary stock of companies each of whose paid-up share capital was less than £1 million? Section 2 (3) only applies 'after the [modified] fund has been divided in pursuance of subsection (1)' of that section. Can we presume so to stretch the words of Section 2 (1) as to construe them as permitting the division of zero into two parts of equal (zero) value? If not the trustees who realize (in one sense of the word) part of the ordinary stock because, having considered 'the circumstances of the trust' realize (in the other sense) the need for that diversification of which Section 6 (1) requires them to have regard, will, it seems, have to go through the expensive farce of investing at least part, if not indeed the whole, of the proceeds of that realization (in both senses)

in narrower-range property before they can effect a Section 2 (1) division thereof, and so enable themselves to divide the proceeds between the narrower-range and the wider-range parts of the fund.

Effect of Section 3 (3) on a Court Order

While space does not permit any discussion here of the fascinating investment problems of the Belfast City and District Water Commissioners (First Schedule, Part II 9 (e)), or of the persons for the time being authorized to invest funds of the Duchy of Lancaster (Section 8 (2) (a)), brief notice may be taken of Section 3 (4) (a) which takes out of the province of Section 3 (3) and so out of the scope of the Second Schedule, any trust fund where the powers of investment or to postpone conversion have been conferred or varied by an order of any Court within the past ten years.

Observe the effect of the word 'varied'. Suppose that nine years ago trustees who had power to invest up to 60 per cent of the trust fund in Ordinary shares obtained an order under Section 57 of the Trustee Act, 1925, to hold *even temporarily* 61 per cent in such shares, the whole of the original power has now been adversely affected, even though the Court order has long since been exhausted; for though Section 3 (1) still takes effect, the Second Schedule has gone, and the Third Schedule (which in some mysterious way seems to take for granted that the trust fund has been divided into two equal parts) requires that no wider-range investment shall be purchased until the non-narrower-range investments have fallen below 50 per cent of the whole fund.

It is therefore submitted that the promise of Section 3 (1) that the Act provides additional powers without derogating from any pre-existing powers is falsified, perhaps owing to a drafting error, by Section 3 (4) if part only of those existing powers has resulted from an order of any Court during the last ten years; apparently it is not only the power conferred by the Court order, but still earlier powers in the trust instrument itself, from which the Act may in fact derogate.

Perhaps Section 3 (4) was drafted without thought of a combination of original special powers and Court enlarged powers; its application is readily interpreted where one is concerned only with a trust instrument which is silent upon powers of investment, so that the trustees had originally only the range of the Trustee Act, 1925, from which to choose, where at some time within the last ten years an order of the Court authorized

investment in equities under conditions and to a limited extent prescribed. It can be said with some confidence that none of these orders will have limited the investment to shares or stock of companies with £1 million paid-up capital, so that the trustees may well find themselves on the passing of the Act in the position of holding some investments which are 'even-wider-range' investments, i.e. which are neither narrower-range nor wider-range investments. The Second Schedule then has no application to their trust fund and they are instead caught by the mischief of the Third Schedule.

If the trustees divide the trust fund into two equal parts (which, as one reads Section 2 (1) they need not do) and the wider-range part of the fund cannot contain all the 'even-wider-range' as well as all the wider-range investments, then so long as the overflow of either is necessarily in the narrower-range part of the fund, pursuant to §1 of the said Third Schedule, 'this Act shall not authorize the making or retention of any wider-range investment', i.e. the Act shall not permit the making or retention unless authorized elsewhere, which in the kind of trust now being considered means authorized by the order of the Court with all its imposed conditions and restrictions.

One may reflect that by the exercise of a little ingenuity one could compose a very tricky examination question, starting with a trust instrument which gave some limited specific powers of investment in addition to the powers of the Act of 1925, and superimposing a Court order made in 1953, say, before the 'arrangements' asked for had come to be drafted on what was called in 1960 'lines which by that time had become generally accepted' (see *Re Thompson's Will Trusts* [1960] 1 W.L.R. 1165), and calling for a statement to be prepared for the guidance of the trustees on the coming of the Act of 1961. And the sting in that reflection is that there must be numerous groups of trustees who are in precisely the position of one or other of the permutations which the proposed examination question might incorporate.

Finally, be it noted, the provisions of Section 6 (2) and (5) requiring trustees to 'obtain and consider' advice confirmed in writing in certain circumstances, will not apply to every problem confronting those trustees, and the provisions of Section 6 (3) and (5) requiring trustees to 'determine at what intervals . . . it [is] desirable to obtain' written advice as to the retention of existing investments, and 'obtain and consider such advice accordingly', will not apply to any of those problems.

During the time when the Act was a Bill, or perhaps even before, the practice of the Courts varied; in some cases orders were made in the form asked for, but in other cases interim orders only were made, to expire on the coming into force of the Act. From that day neither the Order, of course, nor the Act has authorized the retention of any 'even-wider-range' investment in such trusts, and §2 of the Third Schedule prescribes that neither Section 4 of the Act of 1925, nor Section 33 of the Trusts (Scotland) Act, 1921, (which relieve a trustee from liability for retaining an investment which has ceased to be authorized) shall apply 'where an investment ceases to be authorized in consequence of the foregoing paragraph', (*N.B.* 'in consequence of' not 'pursuant to'). Thus a wider-range investment made under an interim order cannot be retained unless it can be included in the wider-range part of the fund and presumably 'even-wider-range' investments cannot be retained at all. (One hopes that investments in the latter category made under an interim order have all long since been sold.)

Future Extensions

If a trust which has expressed in clear terms a contrary intention to that which would be effected under the provisions of the Act its position depends upon whether it came into existence before the Act or after. If before, the Act overrides that contrary intention, whereas a contrary intention appearing in a trust instrument coming into operation after the Act will be effective by virtue of Section 1 (3). If a remedy is then required at some future date, recourse will have to be made to the Variation of Trusts Act, 1958, which still remains in force, by the express provisions of Section 15 of the 1961 Act. Moreover, the Act has had necessarily to be framed to deal by way of compromise with a wide range of very diverse forms of trust, and just as it is recognized that trustees under a will which has created a life interest in a fund of but a few thousand pounds must, in the exercise of their duty, refrain from using the powers of the Act with too lavish a hand, so certain funds – such as those of a pension scheme perhaps amounting to many millions of pounds – may appropriately need from the Courts somewhat wider powers than those of the Act.

The principles upon which the fund of a large pension scheme should be invested are not unlike those upon which the fund of a life insurance company or society should be invested – a subject on which, by the way, there is an extensive literature. Can anyone imagine a life office being willing

to restrict its investment portfolio by the yardstick of the Act? Is a pioneer pension scheme founded fifty years ago and consequently with only narrow investment powers, and circumscribed powers of amendment or none at all, to be penalized as compared with one which, because of its tardy arrival, has investment powers appropriate to the present day?

There have been at least three applications for the extension of powers of investment before the Courts since the Act came into force and all three have met with refusal. In *In re Cooper's Settlement; Cooper v. Cooper* ([1961] 3 All E.R. 636), Buckley, J., said that

'in enacting the Act of 1961 Parliament had indicated the extent to which they thought it right that trustees should be free to invest otherwise than in gilt-edged investments'.

With respect, one suggests that Parliament can only have indicated the extent appropriate to the average case. His lordship continued:

'The Court would have to be satisfied, whenever relaxation of trustees' powers of investment was sought, that there were *special grounds*¹ . . . and later said that in the present case there were no *special circumstances*.¹

In *In re Kolb's Will Trusts; Lloyds Bank Ltd. v. Ullman* ([1961] 3 All E.R. 811), Cross, J., said that the powers of the Court preserved by Section 15 of the Act notwithstanding, ought only to be used 'if a *very special case* for extending them can be made out'.¹

In *In re Porritt's Will Trusts* (*The Times*, October 26th, 1961), Pennycuik, J., said that

'the Court should not, in the absence of *special circumstances*,¹ enlarge the range of investments beyond that prescribed by the Trustee Investments Act, 1961'.

In this case his lordship said that as the summons had been issued before the passing of the 1961 Act, he would order the costs of the trustees and of the respondents to be paid out of the estate. This has an ominous ring about it; was it intended as an indication that upon an application made hereafter the parties may find themselves condemned in costs?

Not for one moment would this humble person quarrel with the adverse decisions of the Courts in the circumstances of these cases, his quarrel is with the use of the words *special* and *very special*. With the deepest possible respect the writer urges that, assuming in each case the Court arrived at the right judgment, it has done so for

¹ The italics are the writer's.

the wrong reason. Admittedly the circumstances of the trust should be considered; but nothing more than a good reason for wanting something more than the Act provides should be necessary – or even a reason, for presumably a reason recognized by a Court is a good reason. That either the circumstances or the reason should have to be *special* or *very special*, is a philosophy which it is much to be hoped will not long prevail.

Again, with the utmost respect, the writer would remind their lordships of the headmaster of a certain public school who made the stupendous discovery after he had worked out the average height of the scholars, that much to his undisguised satisfaction HALF THE BOYS WERE ABOVE AVERAGE HEIGHT. No one can criticize Parliament for having given us an average piece of legislation and no doubt Parliament is well aware that an

average cannot achieve perfection; but when one reads in the newspapers on one day that a certain insurance company whose shares stand many multiples over their par value is about to distribute a scrip issue in order to make its paid-up capital reach that million pounds from which at the moment it falls somewhat short, and on the next day that a certain shipping company is expected to pay a dividend this year, *however small*, although its year's trading has produced a loss, in order to preserve an uninterrupted five-year distribution, and realizes that neither of these steps will make the shares of the respective company one wit better from the point of view of a discriminating trustee, one must be forgiven for hoping that the Act of 1961 is not long to be regarded in the same light as was the law of the Medes and Persians.

Who is the Landlord?

IMPORTANT RULING ON BUSINESS TENANCIES

by T. J. SOPHIAN

FICTIONS appear to be very dear to the hearts of our legislators. Income tax abounds with them. One need only give as an instance the provisions relating to settlements and the various circumstances in which the income of one person is deemed to be the income of another.

Perhaps the most startling rule of recent times in a non-taxing statute is the enactment in the Landlord and Tenant Act, 1954, to the effect that the landlord of a business tenant may, in certain circumstances, not be the person to whom he pays rent, but a superior landlord – perhaps degrees above in the scale.

The recent decision of the House of Lords in *Green v. Bowes-Lyon* ([1961] 3 W.L.R. 1044), while emphasizing this principle in no uncertain terms, reveals the fact that serious errors have been made in the past when landlords have misconceived the circumstances in which this rule operates.

In consequence, superior landlords have served notices of termination under the Act purporting to terminate the interests of subtenants, when in fact they had no power to by-pass the intermediate lessees in this way, while the latter have meekly stood by and failed to enforce their own rights under the Act.

Briefly stated, the question that the House of

Lords was called upon to determine in *Green v. Bowes-Lyon* was as to the circumstances in which a superior landlord may be regarded, for the purposes of the Landlord and Tenant Act, 1954, as being the effective 'landlord' of a subtenant between whom and himself there would have been, under the general common law, neither privity of contract, nor privity of estate, such as to constitute the relationship of landlord and tenant.

The question in the case as to who was the landlord, had to be decided in order to determine the further question as to whether the grant by the superior landlord of a reversionary lease to the subtenant of the intermediate lessee had the effect of substituting the superior landlord in place of the intermediate lessee, as the 'landlord', for the purposes of the Act of such sublessee.

The facts were that R. had a long lease of the whole premises under the City Corporation. W. held a sublease of the whole for a term expiring on April 4th, 1959, and had sublet a part, the ground floor and basement, to the respondent for a term expiring on April 1st, 1959, and the respondent had sublet to the appellant a part of his own part, viz. only the ground floor for a term expiring on March 31st, 1959.

In the normal way, R. would have become the

appellant's direct landlord on April 5th, 1959, but the House of Lords held that the respondent, whose contractual term would have expired on April 1st, 1954, was nevertheless to be treated as the direct landlord of the appellant, and that, notwithstanding the reversionary lease granted to the appellant by R., the appellant was bound to continue to pay rent to the respondent.

The Material Decision

The decision turned on the proper interpretation of the words in paragraph (b) of Section 44 (1) of the Landlord and Tenant Act, 1954, and perhaps it is hardly necessary to add the type of case on which this interpretation will have the greatest impact is one in which there is a trilogy of superior landlord (or more than one), mesne landlord (or more than one), and subtenant.

Paragraph (b) provides that one of the essential conditions to constitute a person a 'landlord' is that his interest in the premises should consist of either the fee simple, or, if he is a lessee himself, a tenancy which will not come to an end within fourteen months or less by effluxion of time or by virtue of a notice to quit already given by his (immediate) landlord.

The material time for making this calculation depends on the particular act the validity of which has to be tested; such, for instance, as the grant of the reversionary lease in *Green v. Bowes-Lyon*, or the service of the particular notice of termination by the particular individual concerned.

To take an instance: A. is the freeholder who has let to B. for a term expiring June 30th, 1962, and B. has sublet a part to C. for a term expiring on June 20th. A. being desirous of terminating the tenancy in order to rebuild serves, on December 15th, 1961, notice of termination on C. Is A.'s notice on C. valid? In the ordinary way it may be said that it was valid, since B.'s term, calculated from the date of the service (December 15th, 1961), has less than fourteen months to run.

But, as the House of Lords has now finally determined, one must give effect to the continuance provisions in the Landlord and Tenant Act (Sections 24 and 64), under which a business tenancy will automatically continue indefinitely after the date of its normal expiry unless or until it is effectively brought to an end by service of an effective notice of termination.

Therefore, taking the example above, both B.'s tenancy under A., and C.'s tenancy under B., will automatically continue and continue indefinitely, so that it is not true to say of B.'s tenancy that it

will end on June 30th, 1962, for it will continue thereafter indefinitely until it is effectively terminated by a proper and effective notice of termination. Therefore B. still remains the 'landlord' of C. as at December 15th, for B.'s tenancy being continued indefinitely after the normal date of its expiry on June 30th, 1962, one cannot say of it that it is a tenancy which has less than fourteen months to run.

This, then, is the cardinal principle determined by the House of Lords in *Green v. Bowes-Lyon*. The ramifications of this decision are both numerous and diverse. It is of prime importance, therefore, that where notices of termination are concerned, the occasions for the service of which are exceedingly numerous, the above principle must be kept constantly in mind if serious errors, and the still more serious consequences of such errors, are to be avoided.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 18TH, 1886

A Weekly Note

Of . . . professional interest to accountants is the fact that the directors of the Birmingham Central Tramways Limited have discontinued the practice of charging depreciation, and relying on the precedents afforded by railway companies will in future maintain the permanent way and rolling stock out of revenue, and a Birmingham contemporary speaking of this plan, says that "if faithfully followed it should be even safer than the system of writing off for depreciation which is always liable to miscarriage." The shareholders may find some day that the dangerous and objectionable method about to be adopted of dealing with this matter will work more damage to their property than even gross mismanagement could effect. The plan adopted by the directors is full of temptation to defer necessary repairs to the lasting injury of the tramway property. A rate of depreciation can be fixed with tolerable accuracy, and every year's experience will help to correct it and bring it into accordance with the actual wear and tear. Its advantage is that, once fixed, the simplest and most ignorant shareholder has a very effectual safeguard. The other case assumes that directors and managers will always do what they are often found not to do. In the case of railways, the accounts are scrutinized by experts, and the directors know it, and know that if the amount spent in maintenance is low, explanations will be required, and if they are not satisfactory, stockbrokers will not lose sight of the fact in transactions in the stock. The shareholders in the Birmingham Central tramways will do well if they request their directors to make up the accounts on a basis which is safe and correct, rather than a basis which has been proved to be thoroughly unsafe and full of temptation.

Weekly Notes

Man of Account



SIR HAROLD HOWITT, G.B.E., D.S.O., M.C., D.C.L., LL.D., D.L., J.P., F.C.A., retires this week-end from the firm of Peat, Marwick, Mitchell & Co, Chartered Accountants, with whom he has been for fifty-two years – fifty of them as a partner. He is 75.

An eminent accountant whose name is virtually a household word in the profession, not only in Britain but the world over, Sir Harold's career has led him into many fields of public service in all of which he has gained distinction. He was awarded the D.S.O. and M.C. for his services in the field in the First World War. Throughout the last war he was a member of the Air Council and its associated services and he also acted in an advisory capacity to no less than ten other Government departments. He was knighted in 1937 and was awarded the Grand Cross of the British Empire in 1946.

Since 1932 Sir Harold has served on innumerable councils, committees and tribunals. Some twenty are listed in *Who's Who* and that is not exhaustive. Of such appointments in recent years, undoubtedly the most prominent was that in 1957 when he became one of the three original members of the Council on Prices, Productivity and Incomes – the 'Three Wise Men' as it was popularly dubbed. He resigned from the Council in 1960.

A Justice of the Peace since 1952, Sir Harold was chairman of the Hampstead Bench from 1952–59. His many interests in the field of social service include the N.S.P.C.C., Toynbee Hall and the Boys' Hostels Association.

Sir Harold was a member of the Council of The Institute of Chartered Accountants in England and Wales from 1931 until his retirement last January, being President of the Institute in 1945–46. He was President of the Sixth International Congress on Accounting in London in 1952 and he is to address the Eighth International Congress to be held in New York next September.

In expressing our best wishes to Sir Harold for a long and happy retirement we have pleasure in publishing the following tribute to him contributed by his friend and colleague both in partnership and on the Council of the Institute, Mr C. U. Peat, M.C., M.A., F.C.A.:

I am proud and glad to have this opportunity of paying a personal tribute to Sir Harold Howitt. We have known each other for over forty years, and he is a close and loved friend of my family. Of Sir Harold's many attributes one stands out and I think is the key to his whole character, it is courage. I am privileged to have beside me one of the two citations for bravery which appeared in the *London Gazette* on July 26th, 1918. The place of action was St Quentin-Beauvois. The citation reads as follows:

'For conspicuous gallantry and devotion to duty in action. On many occasions he rallied troops when they were falling back. He displayed complete fearlessness in moving about in the open, under heavy fire, in order to clear up obscure situations. When trying to re-establish the front line he was once taken prisoner, but after a few hours made good his escape. His leadership and example were of the greatest value.'

From this broad based courage springs his whole approach to life, his unselfish service to his country, his profession, his partners and his friends. This confidence based on principles which have no fear but always hope, that handmaid of love and faith, give him the power he always wields over men – either in the First World War in the Army or in the everyday walks of life. His breadth of understanding makes him one of the greatest negotiators of our time, a person who can always take a dispassionate and kindly view of the problems and difficulties of his fellow men. Sir Harold's contribution to the progress of the Institute has been outstanding, and as a partner of our firm his work and wise counsel in the difficult and changing conditions of professional life cannot adequately be recognized. With all his gifts there runs a sense of humour which gives them that essential and refreshing flavour. All in all Sir Harold combines the great qualifications of being a good friend and a very perfect gentleman.

Peak Capital Spending

ACCORDING to provisional estimates by the Board of Trade, capital expenditure in the third quarter of 1961 was at a record level. It reached £445 million and based on 1954 prices, and after seasonal adjustment, it shows an increase of some 5.5 per cent

on the second quarter of the year. The big increase was in distributive and service industries. In these sectors, fixed capital investment went up by nearly 6 per cent and there was substantial spending on all three types of assets which are recorded: buildings, vehicles and plant machinery. Spending by manufacturing industries went up 5 per cent compared with a second quarter increase of 6 per cent. In this case expenditure on plant and machinery and on buildings was much higher than on vehicles.

There was little change in the level of stocks in the third quarter. The provisional estimate puts them at only £1 million higher than the previous quarter, again after being seasonally adjusted on a 1954 price basis. Within this overall levelling out, however, there were some significant changes. Manufacturers' stocks went up by £59 million while those in the hands of wholesalers and retailers decreased by £58 million. *The Board of Trade Journal*, commenting on the figures, says that the fall in stock building which occurred in manufacturing industry at the beginning of 1961 has now progressed into the distributive trades. Meanwhile, of course, manufacturers' stocks have started to rise again and the increase is spread evenly over materials and fuel, work in progress and finished goods. Wholesalers' stocks have dropped by £23 million. This is the largest decline since the present series of statistics began and follows heavy stock moving by this category during the second half of 1960 and the first six months of 1961. The drop in wholesalers' stocks and the increase in manufacturers' stocks have already had some significant repercussions in industry. The outstanding example is the steel industry where the running down of customers' stocks has forced the industry to continue operating at about 75 per cent of capacity.

Facts on Friendly Societies

A STATISTICAL summary included in Part 1 (General) of the Report of the Chief Registrar of Friendly Societies for 1960, issued last week,¹ shows that although there was a further slight fall in the number of bodies registered or rendering returns to the Department (from 22,524 to 22,359) largely as a result of amalgamation with or transfers to other societies, and also a small decline in the total membership from 154,511,000 to 154,289,000, there was an increase in their total funds of £382 million, bringing the total at the end of the year to £6,038 million. The total funds have increased by 94 per cent during the last ten years. Building societies accounted for £219 million of the increase during 1960, but an increase was also shown by every other type of society with which the report is concerned except certified loan societies.

Attention is drawn in Part 1 to the fact that the membership figure obviously does not represent an equivalent number of individuals. The same person

may be a member of a friendly society, a co-operative society, and a trade union, a shareholder in a building society and, at the same time, the holder of one or more policies in an industrial assurance office, and may, therefore, be counted more than once in the statistics.

Apart from these general statistics, Part 1 deals with other matters that are not appropriate for inclusion in other parts of the Report. It shows, for instance, that 2,303 qualified accountants held general appointments as approved auditors under the Industrial and Provident Societies' Acts and the Friendly Societies' Acts at the end of 1960 and that such auditors audited the accounts of some 12,875 societies during the year. Also included in Part 1 are statistics of the 410 superannuation funds registered under the Superannuation and Other Trust Funds (validation) Act, 1927, which had total funds amounting to £476 million. These funds received £20 million as contributions from employers, £13 million from employees, and paid out £12½ million as superannuation benefit during the year.

Hire-purchase Debts are not Trading Stock

THE Court of Session in Scotland has held, in *Lions Ltd v. Gosford Furnishing Co Ltd and C.I.R.*, that debts under hire-purchase agreements and owed to a company carrying on the business of retailers of house furniture, television sets and ladies' furs, are not 'trading stock' within the meaning of Section 143 of the Income Tax Act, 1952.

The matter arose following the acquisition in 1953 by the Gosford company of Nottingham, of the business of Lions Ltd. The Special Commissioners had held that the hire-purchase debts, amounting to £225,717 and owing to Lions Ltd, were 'trading stock' for the purpose of Section 173. Lions Ltd appealed and the Court of Session, by a majority of two to one (Lord Carmont dissenting), has allowed the appeal.

The Lord President said that in his opinion the £225,717 represented something much more than the value of trading stock. It represented, among other things, a payment for the transfer of the right to receive future instalments and of the right to recover possession if the instalments were not paid. The transfer of the debts was therefore the transfer of valuable rights in addition to stock. It would be different if Lions Ltd had been in the habit of selling hire-purchase agreements to other traders.

Five Years of Executive Advertising

THE latest issue of MSL Index (December 1961) shows the trend of advertising expenditure on executives between 1957 and 1961. The number of column inches per week taken in newspaper advertisements went up over that period from 3,700 to 8,100. This is a large increase - though not quite as large

¹ H.M.S.O. 3s net.

as the scale used for the graph on the cover of the pamphlet suggests.

Over the years the space taken per advertisement has increased very substantially. In five national newspapers there were seventy-one display advertisements in the third week of September 1956, taking a spot week. In the same week of 1961 there were 778 such advertisements. Such is the effect on advertising for senior positions at a time of full employment when money and skill (including selection consultants) have to be used to attract good applicants.

A feature of the quarterly review accompanying

the longer term one is the drop in classified advertisements for executives in the third quarter of 1961, after the latest credit squeeze started. Compared with the same quarter of 1960, advertisements fell by 39 per cent. The big fall was in sales, production and research staff (between 48 and 58 per cent each). Accounting also declined (19 per cent) but general management was significantly higher (50 per cent). Compared, however, with the second quarter of 1961, general management was only 39 per cent higher, while accounting recorded a recovery of 11 per cent. Sales advertising was still heavily down at 31 per cent.

This is My Life . . .

by An Industrious Accountant

CHAPTER 104

IT'S traditionally accepted that busy directors refuse to read long reports embodying columns of figures; they like short pithy presentations which give them the important facts at first glance. Details they leave readily to the specialists; they only have time for the significant points which merit the requisite action.

So our accounts staff have evolved a new technique of illustrative reporting. We produce monthly a foolscap sheet showing all the important features of our departmental trading in pictorial fashion. We have horizontal graphs showing monthly and cumulative sales compared with last year, and vertical multi-coloured blocks explaining gross and net profits for each section. We have bar-charts in black, white, and check designs showing stock-in-trade rises and falls, and ingenious, stippled, cut-the-cake designs which make clear to the rawest novice our future cash expectations from debtors on a monthly basis. The master-chart on my office wall stops visitors short in their tracks.

We've added some extra items since the earlier days. The departmental accountant wanted to show gross profit as a percentage of average stock per department; our costs man urged a 'growth ratio' bar-chart for net assets which he saw in a U.S. magazine; our internal auditor submitted a 'marginal depth index graph' which is so modern I can hardly understand it myself. It looks like the sort of contemporary sculpture where the people have holes in their middles. When I produce the up-to-date monthly summary at directors' meetings there is a respectful, even deferential, hush. I opened it before the chairman suddenly one morning and he backed away instinctively.

The said chairman was driving to London to a dinner last week and gave me a lift as I had some business there also, so I seized the opportunity to ask

him how useful he really found the charts; compliments seemed surely due, if not overdue.

'Oh, very colourful, indeed; very impressive,' he said cheerfully. 'Glad you find them helpful . . . you keep them going as long as you like . . . of course, I can't make head or tail of them myself.'

Taken aback by this desertion, I sat silent until we sped through Knightsbridge and emerged at Hyde Park Corner; here, suddenly, calamity raised its ugly head. Columns of fast evening traffic hemmed us in on both sides; excavations, petrol-fumes, barricades and hoardings beset us; familiar landmarks had vanished. Penned helplessly in our lane, we sped up to Marble Arch. Our effort to swing right was foiled by the scream of a woman in a bubble-car; we came somehow through Knightsbridge again. The chairman's dashing old cavalry instinct asserted itself; he swung lawlessly past the policeman's white glove, veered away from a menacing red bus, flew madly through St James's Park. At a traffic-light we were in the left-hand lane; the filter-arrow showed green; but he wanted to go straight on, and he sat firm and waited stubbornly; when the taxi-horns behind him rose to a crescendo another white-gloved hand directed him out of course; and we laboured down Piccadilly in the wrong direction. I think we did this at least twice.

Later, much later, still in overheated first gear, we found ourselves jammed in a slow procession in dark side-streets where we lost ourselves before emerging somehow into Victoria Street, again in the wrong direction. The chairman's eyes were bulging, he gripped the wheel convulsively; at least once he was tempted to pull into the kerb, stop dead and give up the struggle, *coute que coute*. We circled Hyde Park Corner and the Green Park again; the traffic was thinning now; we made it to the door of his club, nearly an hour late.

He lit a cigar with trembling fingers and breathed deeply; he looked a beaten man. 'About those charts,' he grunted. 'Better scrub them right away; they remind me of those beastly modern art monstrosities; enough time is wasted without having our accountants turned into ruddy Cubists.'

So much for getting financial information across to the board of directors.

Reviews

Uniform Cost Accounting

by KENNETH S. MOST. (Gee & Co (Publishers) Ltd, London. 30s net.)

The essence of uniform cost accounting as defined by Mr Most, is the formulation of standard concepts and methods of cost accounting which are accepted for the preparation of all costing figures.

Accountants in the United Kingdom have in general been conscious of uniform costing only as the standardization of methods within a particular trade or industry; Mr Most points out that the term can be applied equally to standardization within a single complex organization; and also to the as yet little explored field of inter-industrial cost comparison and so to nation-wide and even international economic planning.

Having given himself this broad field of reference, the author is able to devote nearly three-quarters of his work to a new examination of the meaning, purpose, and methods of cost accounting; showing how variations in emphasis on cost collection and cost control emerge from an historical and philosophical background and how various techniques (as historical costing, standard costing, budgetary control and marginal costing) fit into the pattern of the accounting interpretation of economic facts.

Mr Most, who is one of the most stimulating and original writers on accounting subjects, gives felicitous expression to many basic ideas which may have been dormant or only half formulated in the reader's mind, such as the simple fundamental of the division of cost accounting into the distinct but closely related functions of ascertaining cost of sales and ascertaining residual stocks.

Again, even though the rigidity of the pronouncement is subsequently modified, many accountants will find the ring of common sense in the words 'every departure from the historical cost basis of valuing residual stocks endangers the accounting functions of measuring and interpreting the movement of values'.

This does not prevent the author from concluding in another context that, for the short period, standard costing is the most economical and efficient means of presenting cost information for management; or that 'the ascertainment of product or unit costs on a systematic basis involves a quantity of accounting work which is only rarely justifiable in terms of the benefits to be obtained from it'.

If this part of the book is ideal for browsing and quiet thought, the remaining chapters sound a challenging call to action.

Mr Most defines accounting as the science of recording, measuring and interpreting values and their movements which are capable of being expressed

in monetary terms. This being so, then accounting relationships are identical for all enterprises because they deal with values (values invested, produced or distributed) and not with particular legal or organizational objectives.

This concept makes it possible to establish a uniform classification of accounts conforming to the basic cycle of economic activities which underlies all accountancy in every industry and country.

This objective had never been satisfactorily realized until the establishment in 1958 of the International Chart of Accounts, to the explanation of which Mr Most devotes the last three chapters of his book. He concludes that the principles described are of such fundamental use that 'their universal acceptance is as inevitable as it is desirable'.

Whatever its long-term effect, there is no doubt that Mr Most's exposition will lead most accountants to re-examine their accounting classification with a more critical eye, and to achieve a keener insight into the interrelationship between accounting methods and economic results.

Report on Marginal Costing

(Published by The Institute of Cost and Works Accountants. Distributed by Gee & Co (Publishers) Ltd, London. 10s net.)

This latest research publication of The Institute of Cost and Works Accountants is a welcome addition to the series.

The object of 'research' in this context is not, of course, primarily to produce those rare flashes of insight which change the whole course of accounting thought, but to assemble the best available exposition of some particular facet of the accountants' art and to illustrate some of the more advanced applications currently in use.

In both respects, the present publication achieves a high degree of success; and the material has been edited in a manner which makes reading agreeable as well as informative. The nature of marginal costing makes it normally a technique for application to particular problems, but there are circumstances in which it can be used with benefit as an accounting routine. These circumstances are carefully demarcated, and the book contains copious illustrations of methods of presenting marginal cost studies and marginal cost accounts. A particularly interesting and detailed example shows the technique employed in determining the cost of joint products.

The biggest deterrent to the wider use of direct costing is probably the difficulty of defining which costs are variable and which are fixed. The compilers of this book devote considerable space to methods of assessing variability and to considering what degree of accuracy in assessment is required.

There is also a brief but pertinent review of the problem of the inclusion of overhead in the valuation of stocks and work in progress. It is concluded that

even when fixed costs are considered as related to time rather than output, there are circumstances in which the value derived from these costs must be regarded as crystallized in the work remaining in progress at the period end.

A concept which may be new to many readers is the assessment of 'contribution per unit of limiting factor'; this concept is worked out in most illuminating detail.

All-in-all, this must be one of the most satisfactory publications to emerge from The Institute of Cost and Works Accountants, and is to be most highly recommended.

The Anatomy of Work

by Georges Friedmann. Translated by Wyatt Rawson. (William Heinemann Ltd, London. 25s net.)

Against the material benefits of mass production methods must be set the psychological consequences for the millions of workers who spend their working lives performing a simple repetitive operation at a pace dictated by the belt or machine.

Recent publicity accorded the development of automation has suggested that this trend may be accelerated in our society. Dr Friedmann, an eminent French sociologist, considers the implications of automation in the light of his observations and those of others of the impact on the modern industrial worker of mass production techniques. He demonstrates by case studies drawn from both Europe and America the soul-destroying nature of certain types of work, as well as stressing the advantages to be derived from what is known as job-enlargement. The study is an eloquent commentary on the present and future state of the technicians' Utopia.

The Tax Man Cometh - A Broad Look at the British Tax System

by J. R. BRUMMELL. (One World Books. 127 Staplers Road, Newport, I.W. 15s post free.)

It is the sub-title of this book which describes its contents. The main title could well be 'The Tax Man Goeth' for the author contemplates a possible abolition of taxation as now known. However, this is at the end of the book, under the heading 'Utopia'. The preceding four headings are devoted respectively to direct taxes, indirect taxes, local taxation, and what the author calls tax evasion. In addition there is an introduction which discusses the relative total weight of taxation in different countries and points out that different countries have different standards of amenity met out of taxation, so that comparison is difficult.

Everything the author says is very much to the point and must be very instructive to the layman. His comments are very pithy. Dealing with the widespread use of luncheon vouchers he forecasts the day when it will be a status symbol to eat at

home, and he describes the pangs of the woman who is faced with the alternative of obesity or fore-swearing a tax-free meal. On capital gains tax, pay-roll tax, and the Chancellor's indirect tax regulator, he is very topical but he should not say that the special contribution, introduced in 1948, was a war-time measure.

The kernel of the book is in the last two pages: a great many of the complexities of direct taxation and of social legislation largely cancel each other; a special organization should be created to deal solely with the task of simplifying Government spending and taxation. It would consist of experts in every aspect of these subjects, and would work out a 'stream-lined' system and adapt the present system to it. The author thinks that much of the difficulty lies in the big differences of personal incomes. If these differences were reduced, simpler methods of finding the money for Government expenditure could be found.

The Stock Exchange Official Year-Book, 1961

Volume II (Thomas Skinner & Co (Publishers) Ltd, London. Volumes I and II, £9 5s including postage.)

Volume II of *The Stock Exchange Official Year-Book* completes the 1961 edition of this indispensable work of reference and contains the commercial and industrial section of quoted securities.

A combined index to the whole of the 1961 edition includes the names of many thousands of subsidiary and associated companies. The total editorial pages of both volumes of this valuable guide now number 3,425, including a short supplement of information received too late to be classified.

Register of Defunct and Other Companies, 1961

(Thomas Skinner & Co (Publishers) Ltd, London. £1 10s including postage.)

The 1961 edition of the Register contains the fate of over 22,500 companies which formerly appeared in *The Stock Exchange Official Year-Book*. It gives particulars of an additional hundred companies and securities no longer in the list of live securities. This Register is unrivalled in its usefulness in tracing the value of old certificates no longer known on the market and for the assistance it gives in dealing with deceased estates.

RECENT PUBLICATIONS

SILKE ON SOUTH AFRICAN INCOME TAX, second edition, by A. S. Silke, M.COM., PH.D.(CAPE TOWN), C.A.(S.A.). xxxii+853+27 pp. 10×6. Approximately £8. Juta & Co Ltd, Cape Town; Sweet & Maxwell Ltd, London.

UNDERHILL'S LAW RELATING TO TRUSTS AND TRUSTEES. Second cumulative supplement to eleventh edition, by M. M. Wells, M.A. xi+56. 9½×6. Paper covers. Supplement 12s 6d postage 5d. Combined work 95s, postage 2s 6d. Butterworth & Co (Publishers) Ltd, London.

Finance and Commerce

Exposition on Financing

THIS week's reprint is devoted to the accounts of S. Smith & Sons (England) Ltd, probably known best to the public for its watches, clocks and speedometers, but it is a group with a tremendously important activity in modern scientific instruments. One thing that will be immediately noticed is that the accounts are another example of the 'ranged on the right' style. And in view of a reader's misunderstanding of this term when used in our November 4th issue, in connection with the accounts of Associated Television Ltd, it might be as well to explain that it describes the alignment of the narrative wording to its right-hand edge instead of the usual

margin-on-the-left. This ultra-modern style has a long way to go before it even begins to become generally accepted.

A very valuable exposition on company financing is given by the chairman, Mr Ralph Gordon-Smith, in his statement with the accounts. He notes that the 'substantial sum' borrowed from their bankers is, 'an unusual position for us', and while, he says, it is 'a convenient and sensible means of financing temporary rises in working capital, our needs go further than this'.

Extent of the Equity

Mr Gordon-Smith says the most important thing in financing a growing business is determining the extent to which the needs of the business should be met by the ordinary shareholders. And as to whether ordinary shareholders provide the finance through profit retentions or by rights issues there is, he says, no difference in principle. Profit retention is a shorter and simpler means to the same end; not necessarily a better means.

It should hardly need saying, Mr Gordon-Smith continues, that it should be shareholders' best interests

S. SMITH & SONS (ENGLAND) LTD. AND SUBSIDIARY COMPANIES SCHEDULES TO THE ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1960/61	1959/60
Profit before Taxation		
<i>Is after charging:</i>		
Interest on Mortgages and Redeemable Notes	£ 15,333	£ 15,228
Depreciation	1,244,659	1,128,582
Contributions to Company Pension Schemes	368,182	328,252
<i>And after crediting:</i>		
Sundry Interest	6,923	28,848
Profits less Losses on Sales of Fixed Assets	82,870	63,573

CONSOLIDATED BALANCE SHEET

Fixed Assets	Net Book Value 1947/48	Freehold and Leasehold Land and Buildings	Total	Plant, Machinery, Furniture and Fittings	Motor Vehicles
	£	Cost £	£	Cost £	Cost £
At 5th AUGUST 1961					
At Cost or Valuation	1,016,686	4,124,228	5,140,914	9,872,448	844,655
Aggregate Depreciation	416,551	876,026	1,292,577	5,254,896	524,387
Written Down Amounts	600,135	3,248,202	3,848,337	4,617,552	320,268
At 30th JULY 1960					
At Cost or Valuation	1,018,466	3,623,243	4,641,709	8,748,667	793,538
Aggregate Depreciation	388,392	761,564	1,149,956	4,442,680	469,113
Written Down Amounts	630,074	2,861,679	3,491,753	4,305,987	324,425

PARENT COMPANY BALANCE SHEET

Fixed Assets	Freehold and Leasehold Land and Buildings	Plant, Machinery, Furniture and Fittings	Motor Vehicles
	£	£	£
At 5th AUGUST 1961			
At Cost or Valuation	484,443	1,910,235	2,394,678
Aggregate Depreciation	191,810	395,026	586,836
Written Down Amounts	292,633	1,515,209	1,807,842
At 30th JULY 1960			
At Cost or Valuation	478,948	1,406,043	1,884,991
Aggregate Depreciation	174,015	324,889	498,904
Written Down Amounts	304,933	1,081,154	1,386,087

CONSOLIDATED BALANCE SHEET S. SMITH & SONS (ENGLAND) LTD. AND SUBSIDIARY COMPANIES

	5th AUGUST 1961	30th JULY 1960	5th AUGUST 1961	30th JULY 1960
SHARE CAPITAL OF PARENT COMPANY:				
5% Cumulative Preference Shares of £1 each	1,500,000	1,489,900		
Ordinary Shares of 4/- each	8,500,000	5,781,957		
	<u>10,000,000</u>	<u>7,271,857</u>		
CAPITAL RESERVES				
			7,191,857	
			<u>654,790</u>	
				8,815,482
REVENUE RESERVES OF PARENT COMPANY:				
General Reserve	1,400,000			
Reserve against possible fall in Stock Values				
Pensions Reserve	73,883			
Profit and Loss Account	<u>2,209,615</u>			
				<u>308,825</u>
REVENUE RESERVES OF SUBSIDIARY COMPANIES:				
Pensions Reserve	50,501			
Profit and Loss Account Balances				
(less pre-acquisition profits)	<u>5,002,513</u>			
				<u>8,125,021</u>
Total of Smiths Shareholders' Interests				
				<u>7,590,509</u>
				<u>369,215</u>
				<u>16,084,745</u>
FUTURE TAXATION:				
Income Tax 1962/63	913,269			
Taxation deferred by Capital Allowances	<u>131,983</u>			
				<u>57,730</u>
				<u>4,547,925</u>
				<u>11,582</u>
				<u>1,856,517</u>
				<u>548,975</u>
				<u>(7,072,679)</u>
				<u>9,062,066</u>
MINORITY INTERESTS IN SUBSIDIARY COMPANIES:				
Par Value of Share Capital held	17,585			
Proportion of Capital and Revenue Reserves	<u>60,628</u>			
				<u>8,337,691</u>
LONG TERM LIABILITIES:				
3½% Guaranteed Redeemable Notes	250,000			
Mortgages on Freehold Properties	<u>89,200</u>			
				<u>339,200</u>
TOTAL CAPITAL EMPLOYED				
				<u>18,175,515</u>
				<u>18,186,373</u>
FIXED ASSETS:				
Freehold and Leasehold Land and Buildings	3,848,337			
Plant, Machinery, Furniture and Fittings	<u>4,617,552</u>			
Motor Vehicles	320,268			
Tools and Other Equipment	<u>717,133</u>			
				<u>9,503,290</u>
INVESTMENTS AND ADVANCES:				
Trade and Sundry—Investments	138,785			
—Advances	<u>195,749</u>			
				<u>334,534</u>
CURRENT ASSETS:				
Stocks and Work in Progress	9,533,988			
less Payments on Account				
Debtors, Bills Receivable and Payments in Advance	<u>7,288,137</u>			
Cash at Bankers, and in Hand	<u>166,406</u>			
				<u>16,988,531</u>
CURRENT LIABILITIES AND PROVISIONS:				
Deduct:				
Bank Overdraft	1,248,170			
Sundry Creditors and Accruals	<u>4,873,103</u>			
Exchange Adjustment Account				
Provision for Current Taxation	<u>2,086,886</u>			
Proposed Final Dividend—Net	<u>442,681</u>			
				<u>8,650,840</u>
NET CURRENT ASSETS:				
				<u>8,337,691</u>
TOTAL NET ASSETS				
				<u>18,175,515</u>
				<u>18,186,373</u>

Signed on behalf of the Board
R. GORDON-SMITH } Directors
C. St. C. PROCTOR }

The Schedules and Notes form part of these accounts

S. SMITH & SONS (ENGLAND) LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

53 WEEKS ENDED 5th AUGUST 1961

PROFIT BEFORE TAXATION

Deduct:

TAXATION based on the profits for the

year:

Income Tax

Profits Tax

NET PROFIT AFTER TAXATION

Deduct:

Minority Shareholders' Interests

(less Tax):

Preference Dividend—Kelvin &

Hughes Ltd.

Proportion of Undistributed Profits

CONSOLIDATED NET PROFIT

Dividends of the Parent Company in

respect of the year (less Income Tax):

Cumulative Preference 5%

Ordinary — Interim paid 7½%

Ordinary — Final proposed 12½%

	1960/61	1959/60
£	£	£
889,831	4,190,708	
307,900		
1,197,731		
1,462,426		
5,053		
10,088		
15,141		
1,447,285		
43,586		
265,609		
442,681		
751,876		
Parent Co. £	Parent Co. £	Parent Co. £
470,968	997,007	1,535,446
1,738,647	741,640	4,981,273
RETAINED PROFITS		
Brought forward from last year		
2,209,615	5,002,513	7,212,128
1,738,647	6,516,719	
CARRIED FORWARD TO NEXT YEAR		

The Schedules and Notes form part of these accounts

The figures shown for 1959/60 relate to an accounting period of 52 weeks

NOTES TO THE ACCOUNTS

1 TAXATION

Investment Allowances have reduced the taxation provided against the profits for the year by approximately £183,000 (1959/60 £197,000).

2 EMOLUMENTS OF DIRECTORS OF THE PARENT COMPANY

	1960/61	1959/60
Fees	£3,616	£4,000
As Executives	£64,948	£86,017
Pensions (including past Directors and lump sum commutation)	£27,250	£3,000

3 MOVEMENT OF CAPITAL RESERVES (GROUP)

	£
The movement results from:	
Acquisition of outside interests in overseas companies (now subsidiaries)	67,514
Profit on realisation of fixed assets	17,127
	84,641
Less:	
Acquisition of Minority Interests in existing subsidiaries	34,950
Net Increase	49,691

4 MOVEMENT OF REVENUE RESERVES (GROUP AND PARENT COMPANY)

The reduction in the Pensions Reserves results from payments to or in respect of certain employees on retirement and augmentation of various existing pensions.

5 GUARANTEED REDEEMABLE NOTES (GROUP)

The notes are issued by a subsidiary and are guaranteed as to principal and interest by the Parent Company. The notes are redeemable at par in 1978, but may be redeemed earlier, at the option of the subsidiary, at a premium not exceeding 5%.

6 TOOLS AND OTHER EQUIPMENT (GROUP AND PARENT COMPANY)

Tools and Other Equipment are as valued by the companies' officials. Replacements and any differences on the valuation are charged to revenue.

7 INVESTMENTS—TRADE AND SUNDRY (GROUP AND PARENT COMPANY)

The investments are valued at cost or net book value at 2nd August, 1947, and comprise trade investments £151,896 (Parent Company £41,518) less amounts written off and provisions £35,500 (Parent Company £33,000), and overseas quoted investments, other than trade investments, £22,389 (valued locally at £20,134).

8 STOCKS AND WORK IN PROGRESS (GROUP AND PARENT COMPANY)

In the U.K. these are in general valued at cost (including an allowance for variable overheads) reduced to estimated net realisable value or replacement price if appropriate. No change has been made during the year in the bases of valuation applied in the U.K. and overseas.

EXCHANGE RATES

Assets and liabilities of overseas companies have been converted to sterling at market rates ruling at balance sheet dates.

10 CONTRACTS FOR CAPITAL EXPENDITURE (GROUP AND PARENT COMPANY)

Estimated commitments, not included in the accounts, at balance sheet dates are:

	1961	1960
Group	£950,000	£1,073,000
Parent Company	£717,000	£754,000

11 PLANT, MACHINERY, ETC. (GROUP AND PARENT COMPANY)

The schedules exclude plant, etc., valued in accordance with the Companies Act at 1947/48 net book value—Parent Company £422,497, but which are now fully depreciated.

which determine whether it should be shareholders' money or 'other means' which provides the finance, but there is a tendency, he says, particularly in relation to rights issues, to regard a company raising money as a thing apart from the ordinary shareholders providing it. It has been said, for instance, that a rights issue is a cheap way of raising money compared with medium- or long-term borrowing at current interest rates. 'But if a "rights" issue is "cheap" to the company' in the sense that over the years the company is expected to pay less in dividend (after profits tax) on the money raised than it would pay on a loan, then the ordinary shareholders are getting a dubious bargain.'

Light Ratio

The chairman considers that the ratio of fixed to equity capital employed, currently 1:8, is too low compared with the ratio of fixed assets to net current assets which is rather more than 1:1. It is debatable, he says, whether book value is the proper measure of fixed assets for this purpose. In the board's view, 'expenditure on freehold land and buildings should be matched by fixed capital, so that ordinary shareholders should not only derive, but be seen to derive, the equity benefits which emerge from a policy of owning, rather than renting one's business properties'.

Loan Capital Decision

The board's policy will therefore be to restore a balance between fixed and equity capital which is more appropriate to the pattern of Smith's business, and this will be achieved by raising money on fixed interest terms. As between loan stock and preference shares, conventional considerations are outweighed by the 'somewhat artificial' but 'practically important' distinction that preference must be served out of profits after profits tax, currently 15 per cent. Accordingly, says Mr Gordon-Smith, 'we propose to make a medium- or long-term borrowing at a reasonably early date' and the sum to be raised will be more than needed to replace the overdraft and provide for foreseeable expansionary requirements in the next few years.

A corollary of the policy thus outlined, is that 'over the coming years expansion will be financed to a lesser extent by profit retentions'. This, says Mr Gordon-Smith, should enable the ratio of ordinary dividends to the available profits to be higher than the average of 1951-61. He is not saying that last year's 51 per cent ratio should be regarded as a precedent but he would hope and expect that a 40/45 per cent ratio will permit of increased dividends in future years. But current year expectations must be conditioned by the immediate outlook.

It is not often that a company goes to such lengths in explaining its financial policy, and the views expressed are reflected here at fair length to stimulate thought on the subject.

CITY NOTES

AFTER the experience of 1961 the City, not unnaturally, is looking to the new year with something more than its habitual caution. It is fairly common now to talk in terms of a resurgence of industrial effort and production in the second half of 1962, once the effects of last July's restrictions have filtered through the economy.

Probably the touchiest decision the authorities face is the timing of any easing of restrictions. Past experience has shown the dangers inherent in keeping restrictions in operation for too long and, in fact, of putting them on too late.

For the first half of 1962, however, the current pressure on industrial earnings and on demand in the heavier end of industry is likely to persist.

Superimposed on the home domestic position will be the progress of Common Market entry negotiations and greater awareness of consequential implications may well bring considerable regrouping in industry on the lines of the intended Imperial Chemical Industries - Courtaulds merger.

That is particularly likely to prove the case in the engineering and to an extent in the textile trades.

RATES AND PRICES

Closing prices, Wednesday, December 27th, 1961

Tax Reserve Certificates: interest rate (25.11.61) 3½%

Bank Rate

Nov. 20, 1958	4%	Dec. 8, 1960	5%
Jan. 21, 1960	5%	July 26, 1961	7%
June 23, 1960	6%	Oct. 5, 1961	6½%
Oct. 27, 1960	5½%	Nov. 2, 1961	6%

Treasury Bills

Oct. 20	£5 18s 5.35d%	Nov. 24	£5 7s 9.40d%
Oct. 27	£5 14s 6.57d%	Dec. 1	£5 7s 1.08d%
Nov. 3	£5 8s 6.10d%	Dec. 8	£5 6s 5.34d%
Nov. 10	£5 8s 5.49d%	Dec. 15	£5 6s 4.83d%
Nov. 17	£5 7s 9.71d%	Dec. 22	£5 7s 3.18d%

Money Rates

Day to day	4½-5½%	Bank Bills	
7 days	4½-5½%	2 months	5 8-5 8½%
Fine Trade Bills		3 months	5 8-5 8½%
3 months	6½-7½%	4 months	5 8-5 8½%
4 months	6½-7½%	6 months	5 8-5 8½%
6 months	7-8%		

Foreign Exchanges

New York	2.80½-81	Frankfurt	11.22½-7
Montreal	2.92½-7	Milan	1742½-3½
Amsterdam	10.11½-8	Oslo	20.00½-01½
Brussels	139.80½-81½	Paris	13.76-½
Copenhagen	19.30½-31	Zürich	12.12-½

Gilt-edged

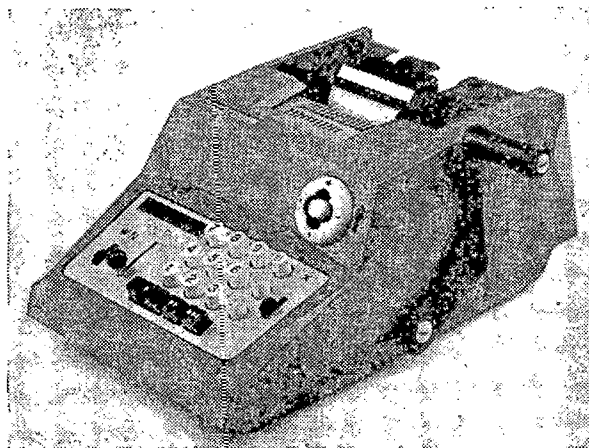
Consols 4%	58 18xd	Funding 3% 59-69	82½
Consols 2½%	37½	Savings 3% 60-70	79½
Conversion 5½% 1974	91 18	Savings 3% 65-75	71 78
Conversion 5% 1971	90 18	Savings 2½% 64-67	84 18
Conversion 3½% 1969	85½	Treasury 5½% 2008-12	84½
Conversion 3½%	52	Treasury 5% 86-89	82 18
Exchequer 5½% 1966	98 18	Treasury 3½% 77-80	69 18
Funding 5½% 82-84	90	Treasury 3½% 79-81	69 18
Funding 4% 60-90	88 18	Treasury 2½%	37 18
Funding 3½% 99-04	56 18	Victory 4%	93 18
Funding 3% 66-68	83 18xd	War Loan 3½%	51½

A monthly feature designed to keep readers - whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

Hand-operated Add-lister

LAATEST item in the Olivetti range of add-listing machines is the *Summa Prima 20*, a hand-operated model, reasonably priced as are all this maker's products.

The machine has a totalling capacity of £10 million less one halfpenny. Its keyboard has been designed to make operation as simple as possible. A single control



Summa Prima 20 Adding Machine

switch governs all arithmetical operations and handle movement has been reduced to the necessary minimum.

Other features include: two-colour printing; sterling and whole number operation; true credit balance; multiplication by repeated addition. Others - not always found on hand-operated machines - are a continuous subtraction lever (also usable for negative multiplication), automatic double line-spacing after totals and sub-totals, intermediate sub-totals during multiplication and single, double and triple cypher keys.

The *Summa Prima 20* is light in weight and measures 9½ inches in width, 14 inches in depth and 5½ inches in height.

Price: £39 15s.

British Olivetti Ltd, 30 Berkeley Square, London W1.

Invoicing at Electronic Speeds

MORE and more manufacturers are using electronics to step up the performance of conventional types of office machinery. The recently announced *Banda-Tronic* is a notable example of this trend. Developed in conjunction with Pye Ltd, it is primarily designed for the preparation of invoices.

Invoice calculations are particularly bedevilled by our sterling currency system. Normally they involve the use of ready-reckoners or the passing of documents to and from an electric calculator department. The *Banda-Tronic* overcomes these shortcomings by com-

binning electric typewriters (on which the invoice forms are prepared) with an electronic unit which does the quantity-times-price extensions, discount calculation etc.

Up to five input-output typewriters can be coupled to one calculating unit. They may be situated in the same room or in different parts of a building.

The *Banda-Tronic* multiplies in sterling and 'instructs' the appropriate typewriter to type out the result rounded off to the nearest penny if desired. All of this is done automatically. The machine also calculates discounts, does continuous compound interest, adds amounts typed in black, subtracts amounts typed in red, accumulates and types out sub-totals and totals. Because of the speed of electronic calculation, there is no delay in the typing out of results.

Simple enough to be used by any typist after a short period of training, the *Banda-Tronic* can do a variety of commercial jobs in addition to invoicing. These include the preparation of stockbrokers' contract notes, wages calculations, costing, estimating, financial statement control, and the preparation of loan schedules.

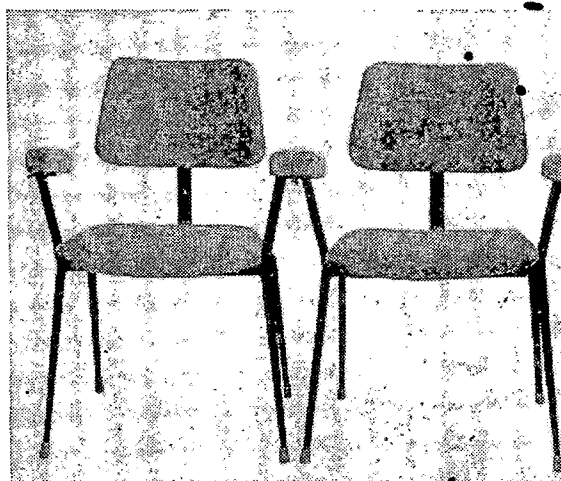
Price: about £18,000.

Block & Anderson Ltd, Pemberton House, East Harding Street, London EC4.

Self-linking Chairs

THOUGH locked rows of chairs are often desirable for the sake of space-saving and tidiness where assembly space is cramped, a rigid or complicated linkage system can cause considerable inconvenience.

Two new chairs in the *Fiona* series, *FL1* with armrests and *FL2* without, link instantly without external accessories and can be as easily separated. To make or break a link it is only necessary to lift the chair a little.



Fiona Chairs

Equipment

higher than its neighbours and remove it from the row. The chairs, framed in tubular steel, upholstered with elastic foam and covered in PVC leathercloth or bouquette, conform to fire regulations for furniture used in public places. The back rest of each model is highly resilient.

Prices: FL1 £6 13s 9d plus purchase tax 5s 2d; FL2 £5 2s 9d plus purchase tax 3s 11d.

Cox & Co Ltd, (Watford By-pass, Watford) Watford, Herts.

Checks Data Automatically

THE encoding of data for punched-card or computer processing is simplified by the introduction of the *National 411 Check Digit Verifier*. Coupled to any kind of tape- or card-producing equipment, this small electronic unit ensures that account numbers, stock numbers, part numbers or other reference numbers are entered correctly.

It can be used with any of the commonly-used numerical codes which incorporate a final check digit determined by the results of certain mathematical calculations on the preceding digits. If the number entered on the keyboard of the parent machine fails its test, the equipment locks. Thus verification is done before the number is punched – saving time, trouble and expense.

Measuring only about 12 inches by 8 inches by 5 inches, the verifier can be placed unobtrusively on and beneath the machine table. It is connected to the parent machine by a single cable.

Price: Approximately £500.

The National Cash Register Co Ltd, 206-216 Finsbury Lane, London NW1.

• Versatile Filing System

HOWEVER good a standard filing unit, there always seems to be a few awkward items that cannot be accommodated and which therefore lie about untidily in the office. This problem has been neatly solved by *Eyemaster*, a new system which is most infinitely flexible. Among the items it will accommodate are suspended or standing manilla files, flat files, flat packages and books.

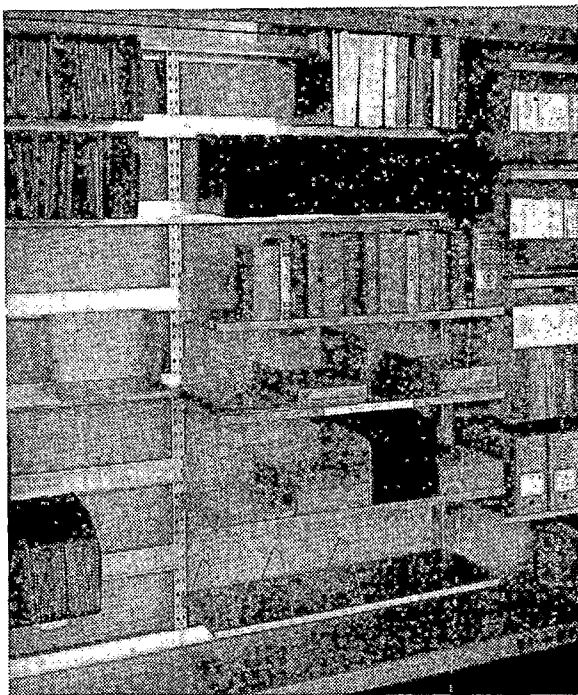
Basis of the system is a rigid, free-standing single or double sided steel frame, 93 inches high and 36 inches wide, with uprights slotted at 1½ inch intervals. This frame is neatly housed by a top, base-shelf and side panels of polished veneer hardwood (or steel to special order).

Interior fittings can comprise up to eighty 'filing containers' in eight rows of ten each, up to seven rows of vertical filing frames for quarto or foolscap folders, or in shelving – or a mixture of any of these.

The filing containers, made of 'pressboard', are hung by nickel-plated tempered steel hooks from the crossrails which are adjustable, being hooked into the slotted uprights. The containers are designed to tilt slightly downward so as to give a tiered effect to the

rows and allow instant reading or titles attached to them. Provided with cut-away tops to increase accessibility to the contents, they are 9½ inches high, 3½ inches wide and 12 or 14 inches deep.

Since the units have no intermediate side panels, any number can be arranged side by side without



Eyemaster Filing System

interruption. This allows fast and easy rearrangement of the filing containers, which can be slid freely along the rails when one is inserted or removed.

For organizations who cannot accommodate the standard *Eyemaster* units, the manufacturers can reduce the height of uprights or shorten the length of cross-rails.

Prices on application.

Sankey-Sheldon Ltd, 22 Kingsway, London WC2.

Front-feed Electric Typewriter

THE new *IBM Model C* front-feed electric typewriter is a standard electric machine fitted with a removable front-feed device into which either cards or forms can be inserted. During typing, the vertical movement of these cards or forms can be either independent of, or simultaneous with, the movement of the copy sheet in the normal back-feed. By means of special guides, the cards or forms can be horizontally aligned with the columns of the backing sheet.

The new model is generally similar to the established *Model B*. However, the front-feed device has been altered slightly to fit the standard *Model C* typewriter and now incorporates an improved method of holding the special fabric ribbon which provides copy entries on the backing sheet.

Price £95 (device only, including fitting).

IBM United Kingdom Ltd, 101 Wigmore Street, London W1.

Taxation Case

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

Australian Mutual Provident Society Ltd v. New Zealand Inland Revenue Commissioner

In the Privy Council – November 20th, 1961

(Before The Lord Chancellor (Viscount KILMUIR),
Lord DENNING, Lord MORRIS OF BORTH-Y-GEST,
Lord HODSON and Lord DEVLIN)

Income tax – Mutual life insurance business – Surplus funds allocated to reversionary bonuses – Re-calculation of reversionary bonuses – Whether re-calculated sum binding on Inland Revenue – Whether non-New Zealand income deductible in calculating surplus funds – Whether income from companies abroad exempt income – New Zealand Land and Income Tax Act, 1954, Sections 2, 6 (1), 86 (1), 149 (2), 165 (2), 167 (a).

The appellant, a mutual insurance society incorporated in Australia, carried on life insurance business in New Zealand, Australia and the United Kingdom. In common with other such businesses the surplus funds were calculated at the end of every year, and a large part was allocated to the payment of reversionary bonuses on participating policies. At December 31st, 1955, the appellant's surplus funds were over £11,000,000. Out of this amount the appellant allotted £8,738,779 to reversionary bonuses. The proportion of that sum attributable to the appellant's New Zealand business was £1,746,492. The investment income of the society in 1955 was about £540,000 of which approximately £80,000 was from investments held by the New Zealand branch. In this £80,000 there was £14,780 from shares in New Zealand companies and £65,063 from shares in Australian companies. The remaining £460,000 was derived from English and other companies.

By Section 149 (2) of the New Zealand Land and Income Tax Act, 1954, in the case of every company carrying on in New Zealand life assurance business, which makes to its policy-holders an annual allotment of surplus funds by way of reversionary bonuses, the residue of the surplus funds so allotted for any year in respect of policies comprised in the New Zealand business of the company, after deducting therefrom

any income of the company exempt from taxation is deemed to be a part of the profit of the company for that year. Section 86 (1) of the same Act provides that:

"The following incomes shall be exempt from taxation: ... dividends and other profits derived from shares and other rights of membership in companies, other than companies which are exempt from income tax."

By Section 167 (a) of the Act income derived from any business carried on in New Zealand is deemed to be derived from New Zealand and by Section 165 (2) all income derived from New Zealand is assessable to New Zealand income tax.

The appellant made a return of income for the year ended December 31st, 1955, on July 18th, 1956, and in a certificate annexed to the return it was stated that reversionary bonuses for a total face value of approximately £3,000,000 had been allotted on policies in force at December 31st, 1955; and 'the cash value of the reversionary bonuses ... £1,736,492' at that date. This amount had been calculated by the net premium method of valuation which assumed the accumulation of the cash allotment at the rate of 2½ per cent per annum. Subsequently the appellant maintained that that was an artificially low rate, which had been deliberately selected to provide an additional reserve, so that as policies approached maturity, the face value of reversionary bonuses would not progressively decrease, as the additional reserves were used in the later years. On January 25th, 1957, the appellant made an amended return in which the amount of the cash allotment was stated to be £1,393,619, that is to say £342,873 less than the amount in the previous return. The amount in the amended return was calculated on an assumed accumulation at 3½ per cent per annum. The actual rate of interest earned in 1955 was 4 per cent. The appellant was assessed on the first return on the basis of the £1,736,492.

It was contended on behalf of the appellant that the amount assessed should be the £1,393,619, which was in fact sufficient to reduce reversionary bonuses of the face value intended; that the income from investments in non-New Zealand companies was 'exempt from taxation (whether by virtue of Section 86 of [the Act of 1954] or otherwise howsoever within the meaning of Section 149 (2)); that the respondent should have deducted the £65,063 from the surplus funds allotted to reversionary bonuses, and, alternatively, that the £65,063 was deductible because it represented income from shares held in New Zealand and thus was 'income derived from business carried on in New Zealand', within Section

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REVALUATION OF ASSETS
WORKS, FACTORIES, PLANT & MACHINERY, Etc.

namely, the society's own business was, by s. 165 (2), assessable income, was exempt from tax by Section 86 (1), and was thus deductible under Section 149 (2).

(1) the appellant had been properly assessed on the basis of its first return, for the respondent was concerned to ascertain what sum had been paid from surplus funds to provide reversionary annuities, and he was not required to ascertain whether the income had been correctly calculated; the income derived from the investments in

non-New Zealand companies was not deductible as it was not 'exempt from taxation' within Section 86 (1);

(3) the income from the Australian companies, the £65,063, was not shown to be derived from any business carried on in New Zealand, within Section 167 (a), because it was not proved that the investments producing the £65,063 had been purchased out of New Zealand earnings, and therefore it could not be said that the £65,063 was derived from business in New Zealand.

Notes and Notices

THE ACCOUNTANT

Index to Vol. CXLV: July - December 1961

A general index to this volume - July to December 1961 - Vol. CXLV - will be published with the issue of January 6th, 1962.

Parts of this volume should therefore not be ordered for binding until the index has been added.

PROFESSIONAL NOTICES

Messrs BALL, BAKER, DEED & Co, Chartered Accountants, of Lloyds Bank Buildings, 55/61 Moorgate, London EC2, announce that as from January 1st, 1962, they are amalgamating their practice with that of Messrs ROWAND & Co, Chartered Accountants, of Finsbury Court, Finsbury Pavement, London EC2. The style of the new partnership will be BALL, BAKER, DEED & Co (incorporating ROWAND & Co). The combined practice will be conducted by the present partners of the two firms, namely, MESSRS JOHN ARTHUR DEED, M.A., F.C.A., WILLIAM ROBERT TOMKINSON, T.D., F.C.A., KENNETH NAISMITH RANKIN, C.A., JOHN WATSON ROWAND, C.A., MICHAEL ST AUBYN MOORE, F.C.A., and GORDON LESLIE ARTHUR DAVIS, F.C.A. The combined practice will be carried on from Lloyds Bank Buildings, 55/61 Moorgate, London EC2. Telephone: Moorgate 9431.

Messrs W. B. KEEN & Co, Chartered Accountants, of Finsbury Circus House, Blomfield Street, London EC2, announce that Mr G. STOUGHTON-HARRIS, F.C.A., and Mr E. H. CHANNON, F.C.A., who have been partners for over thirty years, retired from the partnership on November 30th, 1961, but will continue to be available for consultation. The practice will be carried on under the same name by the remaining partners.

Messrs R. H. MARCH SON & Co, Chartered Accountants, announce that as from January 1st, 1962, their practice will be amalgamated with those of MESSRS GILROY, RUCK & JENKINS, Chartered Accountants, and

MESSRS DAVID & THOMAS, Chartered Accountants. The combined firm will in future be carried on under the name of R. H. MARCH SON & Co (incorporating GILROY, RUCK & JENKINS and DAVID & THOMAS). As from January 1st, 1962, the London office of the combined practice will be at 7 Union Court, Old Broad Street, London EC2. Telephone: London Wall 9453-5. The Cardiff, Dartford and Newport offices will continue at the present addresses. The partners in the amalgamated firm will be MESSRS C. H. MARCH, E. S. FODEN, G. F. K. MORGAN, T. D. JENKINS, A. H. HART, D. J. LITTLE, J. R. C. WEBER, W. G. JAMES, K. B. JEFFERIES, P. F. SPURWAY, M. A. JORDAN, D. M. H. JONES, D. E. HUNT, and R. M. H. READ. At the same time the firm announces that MESSRS C. H. MARCH, E. S. FODEN and D. J. LITTLE are retiring from the amalgamated firm on April 30th, 1962, but have agreed to remain as consultants to the firm for a period of years.

Messrs PEAT, MARWICK, MITCHELL & Co announce with great regret that Sir HAROLD HOWITT, G.B.E., D.S.O., M.C., LL.D., D.L., J.P., F.C.A., is retiring on December 31st, 1961. He has been a partner for fifty years.

Messrs ROWAND & Co, Chartered Accountants, of Finsbury Court, Finsbury Pavement, London EC2, announce that as from January 1st, 1962, they are amalgamating their practice with that of MESSRS BALL, BAKER, DEED & Co, of Lloyds Bank Buildings, 55/61 Moorgate, London EC2, under the style of BALL, BAKER, DEED & Co (incorporating ROWAND & Co). The combined practice will be conducted by the present partners of the two firms, namely, MESSRS JOHN ARTHUR DEED, M.A., F.C.A., WILLIAM ROBERT TOMKINSON, T.D., M.A., F.C.A., KENNETH NAISMITH RANKIN, C.A., JOHN WATSON ROWAND, C.A., MICHAEL ST AUBYN MOORE, F.C.A., and GORDON LESLIE ARTHUR DAVIS, F.C.A. The practice will be carried on from Lloyds Bank Buildings, 55/61 Moorgate, London EC2. Telephone: Moorgate 9431.

MOTOR — FIRE — CONSEQUENTIAL LOSS

CAR & GENERAL INSURANCE LTD

83 PALL MALL, LONDON, SW1

MESSRS TURQUAND, YOUNGS & Co (Far Eastern firms), announce that Mr D. A. BEATON, C.A., Mr J. E. C. COEY, M.A., A.C.A., Mr J. B. CURRAN, A.C.A., and Mr C. HENDERSON, C.A., are being admitted as partners with effect from January 1st, 1962. They also announce that Mr G. G. VAN HIEN will be retiring early in 1962. The practice will continue to be carried on under the same style and from the same addresses as formerly.

The partners of the London and Iberian firms of TURQUAND, YOUNGS & Co announce that Mr A. G. CLINTON, B.A., A.C.A., has been admitted to the partnership in Gibraltar. Mr CLINTON served his articles with the firm in London and has been manager in Gibraltar since 1957.

IN PARLIAMENT Capital Gains Tax

Mr WOOLLAM asked the Chancellor of the Exchequer if, in preparing the proposed capital gains tax legislation, he will have regard to the danger that *entrepot* trade will move to the Continent if Baltic commodity concerns are so taxed on their stocks held here.

Mr BARBER: I have noted my hon. friend's representations.

Hansard, Dec. 15th, 1961. Written Answers. Col. 98.

National Insurance: Employers' Contributions

Mr MCKAY asked the Chancellor of the Exchequer what was the percentage of wages paid by employers for National Insurance, excluding National Health charges and the Industrial Injuries Act, in the financial year 1960-61; what will be the approximate cost in percentage of wages in 1961-62; and what was the percentage return in tax relief which employers received in 1960-61 on such contributions.

Mr BARBER: Employers' contributions to the National Insurance Fund in 1960-61 represented 2.6 per cent of the total wages and salaries in Great Britain. The corresponding figure for 1961-62 is expected to be about 3.1 per cent. If employers who carry on a trade or business were prohibited from deducting their National Insurance contributions in respect of their employees as an ordinary business expense for tax purposes and if other employers were denied relief on their contributions the extra yield of tax would be 35 per cent of their contributions.

Hansard, Dec. 15th, 1961. Written Answers. Col. 98.

SW. LONDON DISCUSSION GROUP

The next meeting of the South West London Chartered Accountants' Discussion Group will be held at the Kingston Hotel, Wood Street, Kingston upon Thames, on Monday next at 6.45 p.m. for 7 p.m., when Mr A. R. Lewis, A.C.A., will open a discussion on 'Services to clients'.

LONDON AND DISTRICT SOCIETY CHARTERED ACCOUNTANTS

Luncheon Meeting

A luncheon meeting of the London and District Society of Chartered Accountants will be held at the Council Rooms, Great Queen Street, London WC2, on January 8th, at 12.30 for 1 p.m., when Mr J. C. Drayton, chairman of British Electric Traction Co., will be the guest speaker.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 1 p.m. on Monday next, in the vestry of St Mary Woolnoth Church, King William Street, London EC3. The Scripture for reading and meditation will be Ephesians, Chapter 3, verses 14 to 17 (the indwelling of the Spirit).

THE INSTITUTE OF INTERNAL AUDITORS

London Chapter

The next meeting of the London Chapter of the Institute of Internal Auditors will be held at the Kingsley Hotel, Bloomsbury Way, London WC2, on January 3rd, at 12.30 p.m. when Mr A. P. V. V. President of the Manchester Chapter, will report on 'Budgetary control and the internal auditor'. Information regarding the activities of the Chapter can be obtained from the hon. secretary, Mr J. H. L. The British Oxygen Co Ltd, Bridgewater Road, Cleveland Row, London SW1.

CHRISTMAS CROSSWORD: SOLUTION

The solution to the Christmas Crossword, compiled by Mr Kenneth Trickett, F.C.A., which appeared in last week's issue, is as follows:

C	O	A	H	D	G	D
O	F	F	I	C	I	A
U	F	C	R	A	I	A
R	E	E	N	D	O	W
S	C	R	I	P	E	E
E	E	T	E	N	D	E
O	Y	E	R	E	T	H
F	A	D	M	I	T	D
D	E	A	T	H	N	D
E	L	O	B	T	E	S
A	L	I	E	N	W	C
L	M	O	E	R	R	O
I	O	U	L	I	T	R
N	O	N	P	R	O	V
G	Y	E	E	Y	E	Y

ROYAL EXCHANGE

ASSURANCE : INCORPORATED A.D. 1720

HEAD OFFICE: ROYAL EXCHANGE, LONDON. Branches throughout the Country.

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